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WASHINGTON

Bush brings back consensus-lovers

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World News

UK expected to reduce army garrison in Gibraltar

Britain is expected to announce substantial reductions in its 1,700-strong military presence in Gibraltar, including withdrawal of all or part of the infantry battalion stationed in the colony. The decision, which has yet to be confirmed, is likely to mean a stormy reception for Foreign Secretary Geoffrey Howe when he arrives in Gibraltar today for a 24-hour visit. Page 18

Afghan diplomacy

Pakistan stepped up its efforts to find a political solution in Afghanistan, in advance of a visit by the Soviet Foreign Minister to Islamabad on Saturday. Page 2

Reunion cyclone

More than 50 people were injured, some of them seriously, as Cyclone Firinga brought 200kmh winds to the French Indian Ocean island of Reunion. The storm was expected later to hit Mauritius.

Yugoslav showdown

Today's meeting of the Yugoslav Communist Party Central Committee is expected to see a showdown between Serbian party leader Slobodan Milosevic and his Croatian rival Stipe Suvar. Reforms proposed, Page 2

West Berliners vote

West Berlin's ruling centre-right coalition lost heavily in local elections and extreme right-wing Republicans made unexpected gains, according to early computer forecasts.

Panchen Lama dies

The Panchen Lama, China's highest ranking Tibetan and second only in the country's religious hierarchy to the exiled Dalai Lama, died suddenly of a stroke at the age of 50. Page 2

Trouble for Benazir

A series of national and provincial by-elections in Pakistan gave disappointing results for Prime Minister Benazir Bhutto, likely to widen the rift between central government and the opposition stronghold of Punjab. Page 2

Cuba visit in April

Soviet leader Mikhail Gorbachev is to visit Cuba in April. The trip was originally to have been last December but was postponed because of the earthquake in Armenia.

Walesa under fire

Radical youths heckled Lech Walesa, leader of the banned Solidarity trade union, as he addressed a rally in Gdansk, over his decision to take part in talks with the Communist Government. Page 2

Iran executions

The international human rights organisation Amnesty International said more than 1,000 political prisoners had been executed in Iran over the past six months in the biggest wave of executions there since the early 1980s. Protest planned, Page 2

Beirut peace moves

Syrian and Iranian ministers made fresh efforts to halt fighting between Lebanon's rival Shia militias and to solve the underlying political deadlock.

Taiwan poll march

Thousands of demonstrators marched in Taipei, demanding elections to replace the ageing present membership of the Taiwanese Parliament.

Swapo conciliatory

Namibian nationalist group Swapo said that any government under its control formed after independence would cooperate with South Africa to ensure the economic survival of the territory. Cuban troops arrive home, Page 2

Phobos orbits Mars

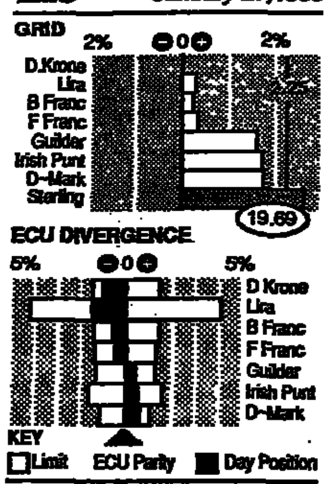
The Soviet spacecraft Phobos went into orbit around Mars after a six-month, 180m-kilometre voyage intended to investigate the planet and its moon, and as a forerunner to a manned flight.

Business Summary

EC offers hope for deadlocked Gatt talks

EC Commissioner for External Affairs Frans Andriessen offered glimmer of hope that long-running deadlock between US and European Community, over farm support under review of General Agreement on Tariffs and Trade, might soon be broken. Page 16; British farm review, Page 14

EUROPEAN Monetary System: Repeated central bank intervention failed to suppress dollar last week. Consequently D-Mark remained relatively weak, easing pressure on weaker EMS members. French franc moved up against its central rate despite disappointing trade figures, gaining support from slightly firmer French interest rates. Elsewhere, Bank of Italy bought D-Marks on several occasions in order to control rise in the lira. Latter has recently attracted investment demand on high level of Italian interest rates. Currencies, Page 30



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

RIUNIONE Adriatica di Sicurta, Italy's second biggest insurance group, announced plans to form new Italian bank in partnership with Allianz Versicherung, West German insurer who owns majority control of RAS. Page 20

COCOA producers and consumers failed to make any substantive progress at talks which ended in London on Friday. With world prices at rock bottom levels and buffer stock purchases suspended, the future of the International Cocoa Agreement is in serious doubt. Page 2

COLECO Industries, US toy company whose Cabbage Patch Kids were once the world's best-selling toy, filed proposed reorganisation plan with Federal Bankruptcy Court in New York. Page 20

RINGIER, Swiss printing and publishing house, has bid $10.50 per share, or about $300m, for W.A.Krueger, one of top 10 US commercial printers. Definitive agreement is expected this week. Page 20

LONDON International Financial Futures Exchange delegation is to meet Tokyo Stock Exchange officials this week for talks about Japanese Government Bond futures contract listed in London. Page 20

MOODY'S Investors Service, debt rating agency, is to assign ratings to all Eurobond issues of international companies, even where issuer has not sought rating and has provided no supplementary information to aid rating process. Page 20

TEXAS Instruments, US semiconductor and electronics manufacturer, reported increased sales and earnings for 1988, boosted by strong memory chip sales. Page 20

US Treasury Under-Secretary David Mulford told World Economic Forum in Davos that Bush Administration's review of policy on Third World debt could result in incentives for voluntary debt reduction by commercial banks. Page 3

NEDLLOYD, Dutch shipping and transport group, invited bids for five container ships and options for another 10 at estimated cost of Fl 1.5bn ($722m). Page 20

Soviet Union still enormous threat to West, says Tower

By David Goodhart in Munich

MR JOHN TOWER, the US Secretary of Defence-designate, warned yesterday that, despite recent initiatives, the Soviet Union remained "an enormous threat" to Western security.

He told a defence conference in Munich that political support in the US for current troop levels in Europe would erode without an early decision by Nato countries on modernising short-range nuclear weapons.

This issue has divided the West German Government. Mr Tower said he was encouraged by the "healthy scepticism" over the initiatives of Mr Mikhail Gorbachev, the Soviet leader, voiced at the annual conference of the Wehrkunde discussion forum, attended by Mr Rupert Scholz, West German Defence Minister and Sir Geoffrey Howe, the British Foreign Secretary.

He said: "The fact is that, even if Mr Gorbachev is sincere, and even if he achieves a measure of success, an enormous threat to US and allied security remains."

He pointed to the danger that Mr Gorbachev may be toppled or that successful reform might create a more confident and aggressive opponent.

Tower: 'healthy scepticism'

Mr Tower was also forthright over the need for the European Nato countries to bear a larger part of the costs and responsibilities of the alliance – especially in defending sea lanes and aiding exposed pro-Western countries, such as Tunisia and Egypt.

Modernisation of short-range missiles was essential even if reductions in strategic nuclear weapons could be achieved and asymmetrical reductions in conventional forces.

The issue is especially controversial in West Germany, where most of the short-range missiles – currently with a maximum range of just over 100km – are based. Many politicians in the country believe it is unnecessary to take a firm decision this year on replacing Nato's Lance missiles, which will last until 1995, at a time of possible disarmament breakthroughs in other areas.

US politicians at the conference said that the issue now was whether a clear a commitment to replace the Lance missiles would be demanded in the new US Congress when it votes this year to start work on the prototype.

Mr Scholz supports an early decision on modernisation of short-range weapons – or restructuring, as he describes it – but warned the US against allowing Europe to bear too much of the nuclear risk. He

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Tough talks on Nato plans, Page 2; US-West German rift, Page 14; Return of the Washington insiders, Page 16

European drive towards larger groupings 'flawed'

By Guy de Jonquières, International Business Editor, in London

RESTRUCTURING European industries into fewer, bigger groups will not improve their efficiency, according to a report by the London Business School. Such concentration could weaken Europe's competitiveness and damage its planned single market, it warns.

The report says many of the direct economic benefits claimed for the European Community's plans to remove all internal trade barriers by 1992 have been over-estimated. The programme was important mainly for its psychological impact.

The study challenges many of the arguments used to justify the recent wave of corporate acquisitions and mergers in Europe. It says many governments and business leaders believed, wrongly, that Europe needed big companies to compete effectively.

There was much evidence that companies' efficiency decreased with size. The biggest danger facing the 1992 programme was that it would encourage the creation of "arthritic European champion" companies, which would restrict free competition in a single market.

"The pursuit at European level of the policy of promoting champions, which has been remarkably unsuccessful when promoted by national governments, is likely to be just as damaging to the long-term health of the European economy as the current nationalism," the report says.

It disagrees with the European Commission's claims that companies would benefit from greater economies of scale in a single market. In most industries, production scales were already large enough to allow efficient operation, though they were not always fully exploited.

The idea that mass-production of long runs of standard goods will increase in a single market is false, the report says. The single market could contribute to increased economic efficiency mainly by exposing industries to much fiercer competition, by breaking down producer cartels, particularly in government-controlled markets, and by eliminating pointless regulations.

* *1992: Myths and Realities, edited by J.A. Kay. £10. Centre for Business Strategy, London Business School, Sussex Place, London NW1 4SA. Tel: 01-262 5050.*

Details, Page 4

Controversial Alan Bond move thwarted

By John Elliott in Hong Kong

A CONTROVERSIAL attempt by Mr Alan Bond, the Australian entrepreneur, to buy out the 33.8 per cent public holding of his Hong Kong-based Bond Corporation International suffered a setback over the weekend when a local Chinese-born businessman made a HK$3.6bn ($462m) bid for the company.

The bid was announced on Saturday by HKR Properties, controlled by Mr Cha Chi Ming and his son Mr Payson Cha, who are substantial minority shareholders in BCI. They priced their offer at HK$3 a share, with the primary aim of stopping the buy-out going ahead at Mr Bond's much-criticised offer price of HK$2.30.

Their first success came three hours after they made the bid. Mr Peter Lucas, BCI managing director, announced that an extraordinary general meeting of BCI, which was to have taken place in Hong Kong this morning to approve the Bond attempt to take the company private, would be adjourned "for seven to 10 days at the outside."

But Mr Lucas also rejected the HKR offer, which he said had "no merit." The Bond group was "firmly committed" to Hong Kong and it was not interested in the "dismemberment" of the company. This was a reference to a proposal that HKR should keep only BCI's major asset – a 50 per cent stake in the Bond Centre, one of Hong Kong's most prestigious office developments which was recently valued at HK$4.52bn.

HKR said it would sell back BCI's overseas interests to Bond Corporation Holdings, BCI's parent company, at book value. This would reduce the cost of the bid from HK$3.6bn to about HK$1.7bn. The interests include a 50.2 per cent stake in Compania de Telefonos de Chile and undeveloped land in Rome.

The wealthy Cha family, which also controls Mingly Corporation and CDW Industries, arrived in the colony from Shanghai in 1949 with a background in textiles. Its major asset is part of a prestige residential development called Discovery Bay on Lantau Island in Hong Kong harbour.

Mr Cris Howe of Anglo Chinese Corporate Finance, which is advising HKR, said there had been earlier talks with BCI but they had "got nowhere." HKR has made it clear that it is prepared to reconsider both the size and structure of its proposals. An improved offer seems likely, although Mr Howe said HKR's primary aim was to force an improved buy-out price for BCI's minority shareholders.

The offer is for Bond Corporation's 66.2 per cent stake in BCI, which the HK$3 price values at HK$2.4bn. If the offer had been accepted, it would have been made general.

BCI's closing share price in Hong Kong on Friday evening was HK$2.125. The company is asking the stock exchange to suspend dealing for one day this morning.

Honeywell Bull plans business shake-up

By Alan Cane in London

HONEYWELL BULL, the computer manufacturer owned jointly by Groupe Bull of France, Honeywell of the US and NEC of Japan, is expected to announce tomorrow a change of name to reflect the increased stake held since the end of last year by Bull.

The announcement will, however, go beyond a simple change of name. It will herald a reorientation for the company in the world computer market. It is expected to announce developments that will influence its competitive position with regard to IBM, which is establishing a standard for all its computers.

Honeywell Bull was established in March 1987 when Bull and Honeywell each held 42.5 per cent of the equity while NEC held 15 per cent. On December 30, Honeywell, which has gradually been withdrawing from the computer industry to concentrate on its core business of industrial controls, sold 22.6 per cent to Bull.

It is expected that the group will continue to consist of two separate arms: Groupe Bull SA, marketing within France, and the newly-named company in the US and the rest of the world.

Stalinism memorial group founded by Soviets

By Quentin Peel in Moscow

A legally-constituted national movement to commemorate the millions of victims of Stalinist terror in the Soviet Union was founded yesterday and instantly established its radical credentials by demanding the return of Soviet citizenship to the exiled author Alexander Solzhenitsyn.

At a confused and often chaotic meeting at a Moscow cultural centre, some 500 delegates from all parts of the country elected a leadership for the Memorial movement split between radical activists and surviving victims of the Stalinist purges of the 1930s to the 1950s.

They endorsed the election programme of Dr Andrei Sakharov, the former dissident and Nobel Peace Prize winner, who was nominated last week as a candidate for the newly-created Congress of People's Deputies.

However they also threatened to bring down on themselves the wrath of the ruling Communist Party Central Committee, by demanding that Mr Solzhenitsyn be given back his Soviet citizenship and that his novel Gulag Archipelago – described by some speakers as the "literary monument" to the victims of Stalinism – be published in the country.

A second radical resolution called for the immediate release of the Karabakh Committee of Armenian nationalists, facing charges in detention of inciting racial hatred between Armenia and Azerbaijan. They have been strongly condemned by Mr Gorbachev and Mr Nikolai Ryzhkov, the Soviet Prime Minister.

As for the reinstatement or publication of Solzhenitsyn, he was only recently attacked by Mr Vadim Medvedev, ideology chief in the Politburo, as both antisocial and anti-Soviet. The Gulag Archipelago, his most damning book on the Stalinist labour camps, was singled out by Mr Medvedev last November as still quite unacceptable.

The Memorial movement represents a highly sensitive political challenge for Mr Gorbachev at a time when he is also facing strong resistance from conservative members of his own Communist Party.

Their dedication to the erection of a lasting memorial to the victims of Stalinism – preferably in the form of a museum and archives on the mass executions and persecutions –

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US unlikely to take 'dramatic' action over leveraged buy-outs

By Peter Riddell, US Editor, in Washington

THE BUSH Administration and the US Congress are considering long-term changes in the tax treatment of dividends, although early direct action against the recent wave of leveraged buy-outs of US corporations is looking increasingly unlikely.

Senator Lloyd Bentsen, the Democrat chairman of the Senate Finance Committee, said yesterday in a television interview that any legislation would not be "dramatic." He expressed concern about any action which might be counter-productive against the buy-outs, through which investors use borrowed funds to take quoted companies private.

The Administration and the Federal Reserve have said recently that they hope and expect the buy-out trend to adjust itself without specific government action, apart from closer supervision of banks in relation to such borrowings.

Senator Bentsen's comments follow hearings by his committee last week and precede a similar inquiry this week by the parallel House Ways and Means Committee, whose chairman, Mr Dan Rostenkowski, has said there is an understanding in Congress that "something is going to be done."

Mr Jim Wright, Speaker of the House of Representatives, has met House committee chairmen to discuss options.

In the absence of direct action to curb buy-outs, the front-runner in current discussions is a change in the balance of tax treatment of corporate debt and equity.

Congress leaders have shown interest in a suggestion by Mr Nicholas Brady, US Treasury Secretary, that companies might be able to deduct only part of their interest payments on debt for tax purposes, but that the current double taxation of companies and individuals on dividend payments might end.

However, congressional leaders and the Administration all accept that any plan would have to be revenue neutral in view of the priority of reducing the federal budget deficit. Making dividends tax deductible would cost between $20bn and $25bn in lost tax revenue.

Prof Michael Boskin, the designated chairman of the President's council of economic advisers, has warned against any action which might increase the cost of capital for US companies.

Mr Alan Greenspan, the chairman of the Federal Reserve, has supported changing the tax treatment of dividends but has opposed altering the tax deduction for interest on borrowed money. Mr David Ruder, the chairman of the Securities and Exchange Commission, favours ending the double taxation of dividends.

The big revenue cost of any one-sided change makes early action more difficult, and Senator John Chaffee, the senior Republican on the Senate Finance Committee, has predicted that legislative moves to curb buy-outs will fade.

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THE MONDAY INTERVIEW

Alain Gomez, chairman of France's Thomson group, has long expected a shake-out in the European electronics industry. He did not, however, expect it to come so soon Page 34

OVERSEAS NEWS

Walesa jeered on move to open talks with Warsaw

By Chris Bobinski in Warsaw

MR LECH WALESA, leader of the Solidarity trade union, was jeered at a rally in Gdansk yesterday over his decision to open talks with the Communist Government.

Several dozen youths shouted "Down with the traitor" and "No talks with murderers" as Mr Walesa addressed the rally. The Solidarity leader retorted: "We must seize the chance, puny as it may be, to do something positive".

Mr Walesa said in Warsaw at the weekend that the Communist Party's monopoly had to be dismantled, but at the same time appealed for calm in the country to enable reforms to be introduced.

He was speaking after a near- 12-hour meeting with the Interior Minister, General Czeslaw Kiszczak, which fixed February 6 as the starting date for formal round-table talks on Solidarity's return to public life.

"We need to build Poland, and striking isn't the way to go about it," Mr Walesa said, adding that people would have to restrain themselves or "solutions of the December 13 type" would be imposed – a reference to martial law in 1981, which banned the free trade union.

The round-table talks are scheduled to last for six weeks and there are to be three working groups: one on economic policy and reforms, another on political change, and the third on trade union issues. There are also to be sub-committees dealing with agriculture, coalmining, the judiciary, the media, associations and clubs, and youth issues.

At the talks, the authorities will be working to bring Solidarity representatives and their opposition allies into Parliament to share responsibility for tough economic decisions as the price for agreeing to the free trade union's return.

The pact has to be in place by early summer, when the authorities want to stage parliamentary elections, but Mr Walesa said he would not be a parliamentary deputy. "Others can do that," he said. "Solidarity wants to be a trade union and no more."

In a sign that Moscow views present developments with favour, the New Times, the Soviet-controlled weekly, conducted an unprecedented interview with Mr Walesa.

Drive for Afghan political settlement

By Christina Lamb in Islamabad

WITH the deadline for the Soviet withdrawal from Afghanistan fast approaching, Yaqub Khan, Pakistan's Foreign Minister, has begun a hectic round of talks with leaders in Saudi Arabia and Iran – fellow-supporters of the Afghan resistance – in a bid to come up with a political settlement to offer Mr Eduard Shevardnadze, the Soviet Foreign Minister, who arrives in Islamabad on Saturday.

Yaqub left Pakistan yesterday for Riyadh for his second visit in two weeks. The Saudis have given assistance to the Afghan Mujahedin, and Yaqub is expected to meet King Fahd to discuss the proposed shura (Afghan council), which has been delayed until Feb 10, five days before all Soviet forces are due to have pulled out of Afghanistan.

On Yaqub's return to Islamabad, he will meet Dr Ali Akbar Velatayi, Iran's Foreign Minister, who arrives on Tuesday for a three-day visit to discuss the Afghan situation.

Burhanuddin Rabbani, one of the seven Pakistan-based Afghan resistance leaders, has accused the Soviets of carrying out their heaviest bombing to date in northern Afghanistan to try to force Commander Ahmat Shah Massoud into talks. Diplomats say hundreds of civilians died and whole villages were wiped out last week.

Mr Shevardnadze has not yet sought a meeting with Mujahedin leaders, but while Rabbani did not rule out further dialogue with Soviet officials, he accused them of "talking peace while bombing houses of poor Afghans".

Yugoslav economic reform urged

By Judy Dempsey in Belgrade

MR Ante Markovic, Yugoslavia's Prime Minister-designate, has called for a radical shake-up of the country's economy, which would involve the introduction of a market economy.

Mr Markovic, who will be sworn in as Prime Minister in March, said in a TV broadcast at the weekend that the state must stop interfering in the economy, business must be given autonomy, and currency, prices and wages must be freed.

"In the approach to the market, all socialist systems have failed, including ours," he declared.

Yugoslavia is at present coping with a $22bn (£12.2bn) debt, an annual inflation rate of over 250 per cent and mounting unemployment. Such factors have not only led to workers' discontent but have fuelled latent nationalist tensions.

Mr Markovic, a liberal-minded economist and politician from the northern republic of Croatia, warned that there were no easy or quick solutions to the crisis. adding that any reform package needed at least five years to have any noticeable impact.

In addition, he said the Government must be invested with greater powers to push through reforms – a veiled criticism of the continuing interference in the economy by the ruling Communist Party.

His outspoken comments contrast sharply with those of his predecessor, Mr Branko Mikulic, who was ousted from power last December.

The party's central committee conference, which opens in Belgrade today, is due to discuss the economic and political crisis.

Pact spells out arms strength in E Europe

By Quentin Peel in Moscow

THE Warsaw Pact is set today to publish for the first time promised details of its troop strengths, armour and equipment in Eastern Europe. The move is a first step in the process towards substantial conventional arms cuts.

The figures, which are certain to be exhaustively analysed by the Nato alliance, amount to the first public admission by the Soviet Union and its allies that they have a large superiority in tanks, tactical missile launchers, interceptor aircraft, combat infantry vehicles, armoured personnel carriers, and artillery.

At the same time, they will suggest that the Nato allies have an advantage in tactical strike aircraft, maritime strike aircraft, combat helicopters and anti-tank rocket systems, as well as a naval superiority in aircraft carriers, according to a statement issued by the Defence Ministers' Committee of the Warsaw Pact, and reported by the Soviet news agency, Tass.

The Pact also has an advantage in submarines armed with missiles and torpedoes, the statement says.

Publication of the new figures today follows the latest announcements by Czechoslovakia and Bulgaria that they are unilaterally cutting their military forces. This move comes in line with earlier statements by the Soviet Union, East Germany, Poland and Hungary.

The process of unilateral cuts was begun by Mr Mikhail Gorbachev, the Soviet leader, when he promised at the United Nations in December to reduce Soviet troops by 500,000 men, 10,000 tanks and 800 aircraft as a unilateral gesture.

The Warsaw Pact statement, published last night without the accompanying figures, says the aim is "the mutual elimination of the existing asymmetries both on a pan-European scale, and in individual regions... substantial cuts in armed forces and conventional armaments in Europe... developing and expanding existing confidence-building measures with regard for restrictions on military activity on the European continent and... extending them to cover independent air force and naval activities".

The Defence Ministers say that the numerical strengths of the ground forces and air forces of the Pact and Nato are roughly equal, but Nato has twice as many naval personnel as the Eastern bloc.

"The military balance in Europe, considering all its ingredients, can be described as a rough parity which does not give a possibility to either side to count on a decisive military advantage" – a conclusion strongly rejected by Nato as failing to reflect a very large conventional arms superiority for the Warsaw Pact in Europe.

"At the same time," the ministers say, "it is imperative radically to lower the present high level of concentration of armed forces and armaments in Europe, to ensure stability corresponding to the principle of reasonable defensive sufficiency.

"The interests of European security call for urgent measures to remove the existing imbalances and asymmetries, effect sizeable cuts in the most dangerous offensive kinds of weaponry, scale down armed forces, and reshape the military structures of the alliances with a view to imparting a purely defensive nature to them."

Death of Panchen Lama raises problems for Peking in Tibet

By Colina MacDougall in London

THE PANCHEN LAMA, second in Tibet's religious hierarchy only to the exiled Dalai Lama and a key figure in China's effort to represent Tibetan Buddhism as flourishing and genuinely autonomous, died suddenly in Tibet of a stroke on Saturday at the age of 50.

Since January 9 the Panchen, normally resident in Peking, had been visiting Xigaze, traditionally the seat of the Panchen Lamas, for a grand ceremony to inter again five of his predecessors dug up by Red Guards during the 1966-76 Cultural Revolution.

Last week the Panchen, who as vice-chairman of the National People's Congress was China's highest-ranking Tibetan, unexpectedly spoke out against Chinese rule over Tibetans, saying the price for development over the past 30 years had been higher than the gains.

"Leftist" mistakes had caused more damage than rightist ones, he said, a reference to the destruction caused in the Cultural Revolution and to the hard line against Tibetan separatists taken in the past two years by the Chinese. In demonstrations in Lhasa, most recently last December, numbers of people were killed when the police opened fire without warning.

The strain of this bold denunciation of Chinese policy, and the numerous rites and meetings of the past week, seem to have been the final blow to the health of a man who spent almost 10 years in a Chinese prison for his defence of the Dalai Lama in 1964. The Dalai fled from Tibet in 1959 following an abortive anti-Chinese uprising.

The Chinese are now faced with a severe problem of how to replace him. Traditionally, lamas search for a boy who they recognise as the reincarnation of the Panchen, but Chinese-selected lamas will not be seen as authentic by the Tibetan people.

The late Panchen Lama was chosen in 1941 under the aegis of the pre-communist Chiang Kai Shek leadership, and the present Dalai Lama has always regarded him as a brother.

Within Tibet feelings will be mixed, as he has been seen as a Chinese puppet. Contrary to Buddhist practice, he married a Chinese woman and has a daughter.

On top of that, huge funds have flowed to Xigaze in the last two years to restore its magnificent temples (one with 209 kilograms of new gold on the roof), while much of the region remains in dire poverty. The Chinese appear to be exploiting, for divide-and-rule purposes, the traditional rivalry between Lhasa, the seat of the Dalai Lama, and the Panchen's own fief at Xigaze.

Troops back in Havana today

By Robert Graham in Havana

THE FIRST major contingent of Cuban troops withdrawn from Angola under last December's historic South-West Africa peace agreement is due to arrive in the port of Havana today.

About 1,000 troops are aboard the Soviet vessel, Fiodor Shaliapin. Between now and July 1991, all 50,000 Cuban military personnel in Angola are due to be repatriated. A symbolic group of troops returned by air from Angola on January 11, roughly when the present contingent was preparing to embark.

The phased withdrawal is part of the December 22 peace agreement, signed in New York by Angola, Cuba and South Africa under United Nations supervision, which also paved the way for Namibia's independence. The withdrawal will be supervised by the UN under the terms of Resolution 435 and by the two superpowers. Last week the UN Secretary-General's office proposed that the UN peace-keeping force – due to begin arriving in April – be cut from 7,500 to 4,500 to save costs.

At the weekend, President Fidel Castro, the Cuban leader, declared Cuba had achieved "peace with honour" in Angola. He eulogised the role of more than 300,000 Cubans who had fought alongside the Angolans during the past 13 years. Angola has been Cuba's largest single "internationalist" military commitment.

President Castro belittled suggestions that Cuba would have difficulty in absorbing such a large number of people. Speaking at a meeting in Havana, with Angolan veterans given pride of place in the audience, he pledged a job for every returning soldier.

The same officials play down reports that Cuba is asking some $800m (£449m) compensation for its Angolan pull-out. However, Cuba is expected to press hard in its current financial plight for substantial assistance, to cover both the immediate costs of withdrawal and the rehabilitation of its 50,000 troops. The number of Cuban dead and injured as a result of the war in Angola has never been disclosed.

Veil lifted on 1962 Cuba crisis

By Quentin Peel

AN extraordinary reconstruction of the Cuban missile crisis, which brought the world to the brink of nuclear war in 1962, has revealed that both sides badly misjudged their opponents' strength and intentions.

A two-day conference in Moscow involved some of the top government figures involved in the crisis, including Mr Andrei Gromyko, then Soviet Foreign Minister, and Mr Robert McNamara, who was US Defence Secretary.

The participants were told that the Soviet Union did have 20 nuclear warheads in Cuba when the crisis broke out – contrary to the belief of many US analysts – but they were not ready for use.

Twenty more warheads were on their way to the island on board the Soviet freighter Poltava when the US imposed its blockade, Gen Dmitry Volkogonov, a leading Soviet military historian, revealed. The Soviet side also had 40,000 troops on the island, although US estimates put the figure at no higher than 10,000 men, according to Mr McNamara.

On the other hand, Cuba was convinced that the US was set to invade the island, and was expecting to lose as many as 800,000 people, according to a top Cuban official.

The event, sponsored by the Soviet Academy of Sciences' Institute of World Economy and International Relations, was held in private. However, Mr McNamara told a press conference yesterday that he was taken aback by the estimate of Soviet troop numbers on the island.

"We estimated that they had around 10,000 men there, and the Cubans had around 100,000 under arms," he said.

However Mr Jorge Risquet, a member of the ruling Cuban Communist Party politburo, said the figures were 40,000 Soviet troops, and 240,000 Cubans.

Both Soviet and Cuban officials flatly denied reports that Cuba's President Fidel Castro had urged Mr Nikita Khrushchev, the Soviet leader, to use the nuclear missiles to prevent a US invasion.

Mr McNamara for his part insisted that there was "absolutely no intention of [Washington] invading the island."

Rupert Scholz: talks today

Scholz faces tough talks on Nato plans

By David White, Defence Correspondent

GROWING anxiety over West German reactions to Nato plans for new short-range nuclear weapons, and to the heavy programme of Nato training operations in that country, will determine a tough agenda for Mr Rupert Scholz, the Bonn Defence Minister, when he starts talks in London today.

Mr Scholz, on his first official visit to the UK since taking over the job last May last, has been more forthright in supporting the principle of modernising Nato's short-range nuclear arsenal than Chancellor Helmut Kohl, to whose Christian Democrat CDU party he belongs, or Mr Hans-Dietrich Genscher, the Foreign Minister.

However, British officials will be looking for a firmer commitment to the early decision sought by both the UK and US on a replacement or follow-on to the current Lance missile. The system chosen would be closer to the 500km lower-range limit for ground-launched missiles banned under the Intermediate Nuclear Forces treaty.

Lance will become obsolete in the mid-1990s. British officials say that a decision on a new system could technically wait until 1990, but that authorisation from the US Congress for funding the missile programme would be required earlier. A crucial meeting between defence ministers in the Nato Nuclear Planning Group is due to take place in less than three months.

Mr Scholz and Mr George Younger, the British Defence Secretary, who both attended an informal gathering of defence experts in Munich at the weekend, are also expected to tackle the question of low-level flying runs by the RAF and other Nato air forces in West Germany, which have aroused popular resentment.

Last December, Mr Scholz warned his colleagues about the surge of public opposition, and a Nato study was launched into ways of alleviating the problem. Top Nato officers insist that real low-flying experience is essential for effective combat training. The UK has taken a close interest in the West German situation, as it has a similar volume of military low-flying – some 80,000 flights per year below 1,500ft.

Added to the list of difficult topics for Mr Scholz is the controversy over West German financial backing for the sale to Jordan of Tornado combat aircraft, made in collaboration with the UK and Italy.

He is also expected to press West Germany's proposal for a new multinational airmobile division with its partners in the Nato Northern Army Group – the UK, Belgium and the Netherlands. Britain has said it wants first to study how such a formation would operate in practice.

Cocoa talks delegates fail to agree

By David Blackwell

DELEGATES meeting on the international cocoa agreement – virtually frozen for the past year – failed to agree any one issue at the London talks which closed on Friday.

The future of the agreement looks even more in doubt than before the half-yearly International Cocoa Organisation Council meeting began on January 19, delegates believe. Deadlock has become a commonplace, leaving consumer countries, who feel the agreement exists primarily for the benefit of the producers, increasingly bitter.

"The talks were a complete failure," said one leading consumer delegate. Delegates would meet again in September.

The agreement aims to stabilise cocoa prices in world markets through the operation of a buffer stock funded by levies on imports and exports. Buffer stock activity is triggered by prices moving outside a range agreed by both consumer and producer countries.

The buffer stock reached the maximum permissible 250,000 tonnes nearly a year ago, and the price range to be defended has been in dispute ever since. Average indicator price for Friday was SDRs 1,071.28 (£799) a tonne – well below the defence range of SDRs 1,485-2,155 a tonne.

Issues left in the air include arrears on levies, which have reached $86.4m (£48.8m), and the rotation of the existing buffer stock, some of which needs to be replaced to maintain quality.

US 'must amend trade laws' after Gatt ruling

By Peter Montagnon

THE US will be forced to amend its omnibus trade legislation as a result of a new ruling by the General Agreement on Tariffs and Trade on international disputes involving patents, the European Chemical Industry Federation (CEFIC) said.

Its statement this weekend is the first official comment by any body on the Gatt dispute panel finding reached in November, but kept confidential until now because of its far-reaching implications for Section 337 of US trade law, which deals with patents.

The panel found that foreign defendants in US patent cases received less favourable treatment than domestic defendants. Cases involving the former are handled by the International Trade Commission, which does not have the status of a court, whereas domestic cases are heard in federal courts, where defendants have a right to produce counterclaims.

CEFIC said the Gatt panel finding, which is to be discussed before the Gatt Council on February 8, means the US must amend its legislation, but it will also have other important consequences.

It means that existing import bans imposed under Section 337 patent cases are "tainted". It will also affect pending cases, "if only because foreign industries can be expected to appeal to the Gatt panel report in proceedings currently before the ITC and the US courts reviewing these agency determinations".

Mr Reinhard Quick, head of CEFIC's legal department, acknowledged that it would take time for the US to amend its law, but added: "We would propose that the President of the US issue a declaration saying that he won't accept actions any more in patent infringement cases."

Though the Gatt panel dealt with the situation applying under the previous trade legislation, Mr Quick said Section 337 was tightened up in the new trade bill passed last year. The panel report thus marks the first successful challenge to the new legislation in Gatt.

It arose out of a complaint by Akzo of the Netherlands against US import curbs on Aramid Fibres, following a Section 337 case lodged by Du Pont of the US.

Punjab poll result will widen rift with Bhutto

By Christina Lamb

RESULTS from national and provincial by-elections in Pakistan are likely to widen the rift between the central Government and Punjab, the stronghold of the opposition Islamic Democratic Alliance (IDA).

The IDA won seven out of nine national assembly seats in Punjab, including the seat vacated by Ms Benazir Bhutto, Pakistan's Prime Minister, in a major upset for her People's Party (PPP).

Punjab was the major focus of the campaign, with leaders of both parties, including Ms Bhutto herself, touring the province. Although they won equal shares of the vote in November's provincial elections in Punjab, the constituency arrangement gave the IDA more seats, and IDA leader Nawaz Sharif enlisted the support of all 26 independents elected, to enable him to form the government.

When Ms Bhutto took office in December, she said Nawaz Sharif's government would not last two months, but since then the PPP has failed to win over a single independent.

The PPP's hopes that Saturday's elections would turn the tide against Mr Sharif proved unfounded.

The results do not affect the balance of power in the national assembly, where the PPP now has 101 of the 237 seats, though their actual strength is 130 because of the known alignments of some minority members and independents.

Sanctions on Mugabe agenda

By Robert Mauthner, Diplomatic Correspondent

MR ROBERT MUGABE, President of Zimbabwe, said yesterday he would bring up the subject of sanctions against South Africa during the visit of Mrs Margaret Thatcher, British Prime Minister, to his country at the end of March, but he did not expect it to lead to a row.

Mr Mugabe, speaking in London on the eve of his Africa Prize address to the Commonwealth Institute, said Zimbabwe would ask Britain for more aid to finance its land resettlement programme.

Disagreement between Britain and most of its Commonwealth partners soured the atmosphere of the last Commonwealth Heads of Government meeting in Vancouver in 1987.

"She will give her view and I will give mine," he said. "If we differ, the result does not have to be hostility."

Referring to Britain's £30m aid, granted at Zimbabwe's independence in 1980 to finance land resettlement, Mr Mugabe said only 40,000 families out of 160,000 had been resettled so far, but no more than £6m of the original sum was left.

"We expect increased assistance. We are aware that Britain has been considering more aid and the matter has been discussed between the two countries."

Zimbabwe could not undertake the programme entirely on its own. Commercial farmers and multinational companies still owned 40 per cent of the land, including the most fertile areas.

He felt that Mrs Thatcher could put more pressure on President P W Botha of South Africa to end apartheid. "We will expose her to our non-racial society in Zimbabwe. If that were to become the model in South Africa, President Botha would have nothing to fear."

Mr Mugabe rejected any suggestion that he and other southern African leaders should begin a direct dialogue with President Botha. "We cannot help him to acquire diplomatic friends when he is suppressing and oppressing our people in South Africa and refuses to have direct discussions with his country's black leaders."

Milan's smog fears receive an airing

By Alan Friedman in Milan

NEARLY 2m citizens of Milan and its suburbs spent the weekend in a politically induced state of environmental alarm after Mayor Paolo Pillitteri announced on Friday that the city was immersed in a dangerous bank of smog.

The Socialist mayor, who is former Prime Minister Bettino Craxi's brother-in-law, captured national headlines with his sensational warning that schools and factories might have to be closed and his demand that motorists should avoid using their cars. These dire predictions, based on exceptionally high pollution levels recorded on Friday, were partly withdrawn yesterday, but not before all Italy began talking excitedly about the "emergency" in Lombardy.

Yesterday saw Milan's city officials back-pedalling slightly: schools and factories will not be shut down after all. But the Milan alert has rekindled fears about the dangers of Italian city centres being choked by the exhausts of cars which do not have catalytic converters and therefore emit more dangerous pollutants than those in most parts of the European community.

Italy is behind other EC members in the battle against pollution and although Mr Pillitteri has called off the alert, the case of Milan is seen as an attempt to draw attention to the country's lax attitude toward the environment.

Amnesty plans new protest over Iranian executions

By Andrew Gowers, Middle East Editor

AMNESTY International plans to make a fresh protest to the United Nations Commission on Human Rights in Geneva today about the recent wave of political executions in Iran, which it says is the biggest since thousands of political prisoners were put to death in the early 1980s.

The human rights organisation says it now has the names of more than 1,000 prisoners reported shot or hanged in a wave of executions that began last summer.

Most of those executed were members or supporters of Iranian opposition groups. There have been persistent reports of an Iranian crackdown on the opposition, but Amnesty's statement gives the most reliable figure available to date for the number of recent executions.

It also puts into perspective Iran's reported plans to announce an amnesty for political prisoners to mark the 10th anniversary of the Islamic Republic, commemoration of which begins this week.

The official Islamic Republic New Agency confirmed on Friday that more than 1,000 prisoners would be released as part of the amnesty.

Small-scale amnesties have occurred every year around this time, but the authorities seem concerned to end dissension within the leadership stemming from the recent wave of executions.

Amnesty welcomes the anniversary plans but expresses concern that political prisoners will apparently be freed only if they have "adequately demonstrated their 'repentance'," and that the amnesty comes too late to save many prisoners of conscience.

The organisation also reports the continuation of torture, detention without trial and amputations and flogging.

PLO faces division on election policy

By Andrew Whitley in Jerusalem

A REFUSAL by the Palestine Liberation Organisation outside the Israeli-occupied territories to permit elections there threatens to open a serious split with its own local leadership, which is taking a more pragmatic line towards overtures from the Israeli Government.

The potential confrontation emerged in public yesterday, after the release from Israeli administrative detention of Mr Faisal al-Husseini, widely regarded as the senior representative in the West Bank of Mr Yassir Arafat's Fatah group.

Immediately after being freed, Mr Husseini told the Israeli media he favoured "free and democratic elections" supervised by an external body such as the UN.

Presumably aware that only 48 hours earlier Mr Arafat had firmly rejected elections under occupation, he expressed confidence that the PLO would endorse a poll free of preconditions.

The decision of Mr Yitzhak Rabin, the Defence Minister, to release Mr Husseini and enter a dialogue with him was criticised at yesterday's Cabinet meeting, much of which was taken up with the latest in a series of gloomy situation reports from army field commanders. Mr David Levy, a top Likud minister, said afterwards it was a mistake to talk to Mr Husseini, if he was indeed a PLO representative.

Other Likud Cabinet members accepted the Defence Minister's argument that it was *essential to maintain channels* to all sides. Mr Rabin confirmed that earlier this week one of his top aides, Mr Shmuel Goren, head of the military government in the occupied territories, had visited Mr Husseini in jail.

While the tough-minded Defence Minister continues to pursue his own course, virtually independent of the rest of the Government, Mr Yitzhak Shamir, the Prime Minister, is in the unenviable position of being pulled in opposing directions by other members of his quarrelsome coalition. On Saturday, he came under unprecedentedly fierce attack from Mr Ariel Sharon, his own lieutenant, for not taking sterner measures to end the unrest.

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OVERSEAS NEWS

WILLIAM DULLFORCE REPORTS ON THE WORLD ECONOMIC FORUM AT DAVOS

US examining market solution to LDC debt

MR David Mulford, US Treasury Under-Secretary, indicated in Davos on Saturday that the Bush administration's review of the developed world's strategy on Third World debt could result in incentives for voluntary debt reduction by the commercial banks.

He responded coolly, however, to a new plan for resolving the debt problem proposed by Mr Carlos Andrés Pérez, Venezuelan president-elect, on behalf of eight deeply indebted Latin American countries.

Speaking to the World Economic Forum, the annual gathering of about 700 leading business people and politicians at this Swiss resort, the US official said the review of US debt policy (launched in 1985 by Mr James Baker, then Treasury Secretary, now Secretary of State) had not yet been completed.

Mr Mulford believed that the basic principles of that strategy would be confirmed. These were to encourage growth in the debtor countries by continuing economic reform, to provide new external finance and to pursue a case-by-case approach, analysing the problems and finding solutions for each country.

However, more ways had to be found to encourage solutions that would reduce the debt stock and ease debt servicing "without shifting the burden on a massive scale to the creditors". Some 60 per cent of the debt of the most heavily indebted countries was still held by the commercial banks.

The US had been the first to raise the question of debt reduction in 1985. There was now a need to find ways of diversifying the process.

The Bush administration would look at tax impediments to "voluntary market solutions".

Emphasising the US commitment to the case-by-case approach, Mr Mulford said proposals for generalised debt relief did not address the problem of ensuring continuing economic reform in the debtor countries. Politicisation of the debt issue had to be avoided.

This was implicit criticism of the new strategy proposed here by Mr Pérez, who is to take office this week.

He had called for a new international agency to buy debt from the commercial banks at its market value, issuing in return what he called low-risk, long-term bonds carrying market rates of interest.

Washington giving 'top priority' to deficit

THE BUSH administration is giving "first priority" to reducing the US budget deficit, Mr David Mulford, Treasury Under-Secretary, said at Davos. He offered no details but said: "You will see the beginning of the process very, very soon."

Efforts to reduce the imbalances between the US, Japan and West Germany will be re-examined by the G7 finance ministers and central bankers when they meet in Washington on Friday.

The attempt by the G7 countries to co-ordinate economic policies had made "relatively good progress" since the end of 1987, but the adjustment of the trade imbalances seemed to be slowing, he said.

Additional policy measures were required to reinforce the adjustments called for by G7. The US was to cut its budget deficit while Japan and West Germany were to reduce their trade surpluses.

Speaking later to journalists, Mr Mulford rather played down the importance of the G7 meeting on Friday. It had already been decided not to issue a communiqué because "we do not want people to get the idea there is any crisis".

Lord Young names himself 'premier of EC jobless'

LORD YOUNG, Britain's Secretary for Trade and Industry, briefly appointed himself on Saturday "prime minister for the European Community's sixth largest state – the 15.5m unemployed who outnumber the populations of the EC's seven smallest members."

He assumed this role while spiritedly defending the UK as "a good European" and in arguing that British experience offered more hope for Europe's jobless than the social plan advocated by Mr Jacques Delors, President of the EC Commission.

Lord Young was speaking at the World Economic Forum, an annual gathering of some 700 businessmen, senior government officials and politicians at Davos.

Of all peoples in Europe, the British knew the terrible price they had paid in the 1960s and 1970s in jobs and living standards for government intervention and regulation, Lord Young said.

During the 1980s, the UK had grown more rapidly than all other main states in the Community. Its growth in manufacturing productivity had been more rapid than that of any other major industrialised country, including Japan. The earnings of a married man with two children had risen on average by 30 per cent in real terms.

This economic success had fed through into jobs. Britain had a higher percentage of its citizens in paid employment (66 per cent), than any other major nation in the Community.

Unemployment had been falling for the last 29 months and now stood well under the Community average at just over 7 per cent.

For Lord Young, this record pointed the way to Social Europe. It rested on the recognition of efficient and profitable companies, pressured by competitive markets, not protected by governments, as the only way to achieve social objectives.

Commissions trying to create desirable social conditions through statutory job protection, heavier regulations on work participation and state aid, would weaken wealth creation and destroy jobs in the long term.

Lord Young said that, by last January, there were only two judgments of the European Court of Justice with which the UK had not complied at the time.

Britain had led the way in the Community by opening markets in nearly all the main areas of the single-market programme.

Sticking to plan for Third World

A FRESH start will be made to resolving the Third World debt problem – but not just yet. When it does get under way this year, it will stick to the principles of the 1985 Baker plan but will introduce modifications to encourage "voluntary" debt reduction by the commercial banks. It will eschew any outright debt forgiveness for the 15 main indebted countries in the Third World.

These conclusions can be tentatively drawn from discussion at the weekend among some 50 politicians, senior government officials and business people at the annual World Economic Forum here – a discussion largely stimulated by a strong Latin American team and a proposal for a new debt plan from Mr Carlos Andrés Pérez, Venezuela's president-elect.

Judging by the reaction of Mr David Mulford, US Treasury Under-Secretary, Mr Pérez's plan for a new international agency to buy debt at discount from banks, against bonds carrying market interest rates, will be stillborn.

Mr Mulford underlined that the US wants to retain a case-by-case approach, allowing for close monitoring of individual countries' efforts to implement the reforms needed to sustain its economic growth.

However, a promising convergence in attitudes did emerge, suggesting that the case-by-case approach will be adjusted.

The US, Japan and other industrialised countries have recognised the necessity of reducing the debt burden. They largely accepted the argument, cogently voiced here by Mr Jaime Serra Puche, Mexican Trade and Industry Minister, that growth cannot be assured even in a country which, like Mexico, is undertaking far-reaching reforms, if its debt service burden is not eased.

In return, Mexico, Brazil and Venezuela – often with US-trained economists at the helm – are presenting more credible programmes for reducing budget deficits, achieving realistic price levels and exchange rates, and opening their markets to trade.

They are responding to the goad implicit in the case-by-case approach that fresh money from abroad depends on internal economic reform. Mexico now had a moral right to fresh capital inflows, Mr Serra argued.

Capital flight from developing countries remains a sensitive issue. Mr Mulford reproached Mr Pérez for not mentioning it.

However, Mr Angelo Calmon de Sá, a member of the Banco do Brasil board, maintained that the capital flight from his country started only after the 1982 debt crisis.

People had lost confidence in Brazil's ability to export and in the reaction of creditors. Restoring confidence meant not only appropriate domestic policies but also a change in the attitude of creditors, he added.

Mr Raymond Barre, former French prime minister, summed up the discussion by saying the time was ripe for devising a new debt reduction strategy. It could use "various devices" adapted to the needs of individual creditor countries and banking systems, as well as to those of individual debtor states, within the framework of the general principles embodied in the case-by-case approach.

The timing for the adoption of any such new scheme remains open. The US administration has not completed its review of its debt strategy.

Sarney inflation measure approved

By Ivo Dawnay in Rio de Janeiro

THE BRAZILIAN Congress at the weekend finally approved a key measure in President José Sarney's latest anti-inflationary programme after winning concessions on pay policy that will add to the upward pressure on prices.

In a compromise with Mr Mailson da Nobrega, the finance minister, the legislature voted through the measure that freezes prices, inflation-indexing in the economy, and the establishment of a new cruzado, worth 1,000 old cruzados.

For its part, the Government backed down from insisting on an *immediate* pay freeze. Instead, it accepted a three-stage adjustment formula which could give exceptional rises of up to 15 per cent to compensate workers for lost purchasing power due to the explosion in price rises this month.

Congressmen had threatened to vote down the whole package if workers' pay packets were not adjusted for January's inflation rate, believed to have neared 70 per cent. On Thursday, in a show of strength, they threw out a minor measure relating to the privatisation of state sector industries.

Despite the agreement, scepticism about the durability of the two-week old emergency package is now widespread. Across the country, shoppers are complaining of continued price rises in defiance of the freeze, while retailers are reporting the first shortages of stocks for some product lines and a steep fall-off in takings.

Meanwhile, many other elements in the package have still to be approved and may well be amended or dropped. Furthermore, a crucial symbolic decision – the dismissal of up to 90,000 civil servants unprotected by job security laws – now appears bogged down in a complex legal dispute.

In what appears to be an admission that price rises have continued into the February inflation rate index – normally recorded over the period January 15 to February 15 – the Government has decided to measure the month from January 24. By so doing, the February figure should be near to zero.

Nevertheless, such a move will cut little ice with consumers who are more than aware of the real increase in prices on their pay packets.

But while public confidence may remain low, last weekend's accord between the legislature and the Government has almost certainly brought Brazil a breathing space. Many economists believe that the real test of the Government's determination will come in its promise to restrain expenditure to within actual revenue receipts – a commitment already under pressure from a host of interest groups.

Canada insider trading charge

By Robert Gibbens in Montreal

MR William Bennett, former premier of British Columbia from 1975 to 1986, his brother and a prominent businessman have been charged by the British Columbia Securities Commission with using insider information in stock market trading.

Lawyers for all three have denied the allegation.

The businessman is Mr Herbert Doman, founder and controlling shareholder of Doman Industries.

Last autumn Doman Industries stock dropped C$4 ($3.39) in the market after the US Louisiana Pacific Corp abruptly withdrew a C$12 per share offer.

Heavy selling occurred in Doman Industries in the hour before trading was halted and the sellers are estimated to have avoided losses of about C$2m.

The BCSC alleges that the Bennett brothers illegally took advantage of a tip from Mr Doman to sell.

Argentina-IMF deal hopes

MR Luis Machinea, the president of Argentina's Central Bank, returned from Washington DC yesterday hopeful that Argentina could sign an accord with the IMF by mid-February writes Janette Stanbus in Buenos Aires.

Before leaving Washington after four days of talks with IMF, creditor bank, World Bank and US Government officials, Mr Machinea had said that the prospective IMF accord would not be a stand-by agreement of the kind originally sought by Argentina. It could instead be an interim show of IMF support for the government's economic policies.

Argentina has been negotiating for almost a year for a new stand-by loan from the IMF, but the Fund has so far been unimpressed by the economic targets which Argentine negotiators are willing to accept.

Argentina's Government is wary of accepting tight economic targets from the IMF

OVERSEAS NEWS

Direct impact of single market legislation 'exaggerated'

Report says benefits will result mainly in changes in business behaviour, Guy de Jonquières reports

AFTER the euphoria, government drum-beating and sheer marketing hype generated by the European Community's single market programme, it was probably inevitable that sooner or later revisionism would set in.

It appears to have arrived with the publication by the Centre for Business Strategy at the London Business School (LBS) of a sceptical report on 1992 by seven academics. Their broad conclusion is that there is rather less to it all than meets the eye.

They agree that 1992 is likely to bring economic benefits, but argue that these will result mostly in changes in business perceptions and behaviour. They say the direct impact of the EC's single-market legislation either has been exaggerated or will be different from what its authors expect.

"The fragmentation that remains within the EC is only to a very limited extent the result of trade barriers of a kind which it is within the power of the European Commission to remove," the report says.

"Trade liberalisation has its primary effects on supply, not on demand. The reason why demand for many products varies across the EC is mainly because of differences in preferences, habits, language, culture, climate and incomes which will be wholly unaffected by 1992."

The report expects many of these differences to persist, and even to grow. It says it is also difficult to be sure whether national market restrictions in Europe are simply disguised trade barriers or genuinely reflect differences in local and national demand.

The two areas where the EC programme could have the biggest impact were public procurement and financial services. Yet even there, the report's authors express doubts about the speed of change.

EC legislation requiring open tendering for public contracts might have little effect unless enforced by the courts. However, fear of arousing political hostility could easily deter disappointed bidders from suing governments.

Though national regulatory barriers clearly existed in financial services, economic analyses by the European Commission probably over-estimated their importance as a source of price differences between national markets.

"One can imagine why Italian motor insurance costs 50 per cent more than the average of the four lowest-priced states, apart from mere barriers to entry into that market," the report says. Moreover, the EC proposals would not outlaw many of the ruses available to governments to frustrate entry into national financial services markets.

The report is at its most critical when attacking the notion, beloved of economists in Brussels and many independent consultants, that 1992 will succeed fully only if manufacturing industry undergoes huge restructuring to exploit bigger economies of scale.

The authors say cost savings from the removal of frontier controls and deregulation of transport are likely to be too small to stimulate changes in the production structure of most industries.

More important, the report claims that the economies of scale already available in the EC are adequate in most industries, and that there would be no extra benefits from a more integrated market.

It says most industries surveyed by the Commission had levels of minimum efficient scale of less than 10 per cent, and for three quarters of them that level was below 5 per cent.

Except for aircraft, chemicals, electric motors and paper, most sectors could probably

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support at least 20 efficient European producers; and the complexity of managing big plants often made them less efficient than small ones.

The report also disagrees strongly with the view that 1992 will produce a more homogeneous European market. On the contrary, it says, the diversity of consumer tastes and of the products and services needed to satisfy them will increase, all the more so as incomes rise.

Hence, in most industries there was no economic rationale for mergers and acquisitions intended to restructure producers into a few big groups able to supply standardised products throughout the EC. Indeed, the report believes such a trend could damage competition and may need to be checked by official intervention.

"It is hard to believe that it is in anyone's interest to have a few large, arthritic dinosaurs thrashing about on the European industrial landscape, and there is nothing at all anti-European about the shivers of apprehension that this vision sends up one's spine," the report says.

Apart from encouraging much more diversity, the main economic benefits of 1992 would be to expose industry to stiffer competition and to break down producer cartels in a number of sectors.

The authors are equally sceptical about the role of scale economies in financial services and dismiss the idea that commercial banking will come to be dominated by a small number of huge "Euro-banks".

The main effect of the EC's proposed deregulation would not be to stimulate the rapid expansion of banks and financial services companies across European borders, but rather to free domestic institutions from nonsensical national regulations.

As a consequence, companies would be better able to exploit their comparative advantage, while increased threat of takeover could stimulate some poorly-managed institutions to perform more efficiently.

The report argues that, in retail financial services, size will be much less important than geographical specialisation and familiarity with local markets. Companies could acquire those advantages by taking over institutions in other EC countries, but many of the benefits could also be had by forging collaborative alliances.

The report also says that Eurotunnel is unlikely to generate much growth in cross-Channel trade, but that it stands to capture a huge share of existing passenger and freight traffic from ferry operators.

It adds that Eurotunnel would do best to undercut ferry prices sharply, rather than charge comparable rates, as it says it plans to do. However, there was a danger that it could eventually achieve a monopoly, which would enable it to raise prices.

EC institutions 'will need to be reinforced'

By Ian Davidson in Paris

EVER since Mrs Thatcher's speech in Bruges last September, the British government has visibly been squaring up for a major ideological fight with the apologists of European integration.

If doubts remained on this score, they were swept away last week by the speech of Mr Nigel Lawson, the Chancellor of the Exchequer, to Chatham House in London, in which he denounced the danger of a "protectionist and bureaucratic" Community, and decried any attempt to set up Economic and Monetary Union in the Community.

Quite coincidentally, a major contribution to this long-running debate, but from the opposite point of view, has been set out in a substantial analytical essay published last week by Mr Peter Ludlow, director of the Centre for European Policy Studies.

In contrast with Mr Lawson's minimalist thesis, that Europe needs the Single Market, and nothing but the Single Market, Mr Ludlow argues that the Single Market will require a strengthening of the Community in a variety of ways, including progress towards economic and monetary union and a more united foreign policy.

In addition, Mr Ludlow claims that Community institutions will need to be reinforced, if they are to enforce the openness of the market and ensure compliance by national authorities.

The idea of economic and monetary union was denounced last week by Mr Lawson on the grounds that it necessarily implied a European government and political union. "Neither the British government nor the British Parliament is prepared to accept the further treaty amendment which the President of the Commission clearly envisages", he said.

Mr Ludlow points out that Economic and Monetary Union (EMU) is very much on the agenda already, but he claims that the immediate implications should be much less apocalyptic than Mr Lawson implies.

The European Summit in Hanover last May specifically endorsed the objective of EMU, and set up a special top-level committee whose findings will be debated at this summer's Madrid summit.

Advance indications are that it will recommend a strengthening of the European Monetary System, with new institutional links between the European central banks.

An institutional strengthening of the central banking system is necessary, according to Mr Ludlow, in order to handle the consequences of free movement of capital between the member states.

He also suggests that it should be accompanied by the development of closer economic policy co-ordination, but he frankly acknowledges that this would be, in present circumstances, an exceedingly ambitious goal.

Achievement of the Single Market will increase the pressure on the Community to define a common identity towards the rest of the world, partly for specific reasons, but also on more general, high-policy grounds.

Even the prospect of a unified European Market is already intensifying the interest of the outside world, both among countries which fear European protectionism, and among those which are attracted to join the Community.

Progress towards EMU will enable and require the Community to play a larger role in the international debate on global economic policy.

The high-policy implications of the Single European Market are even more important. The prospect of closer economic integration is intensifying the potential political influence

Its achievement will therefore require the member states to define much more clearly the kind of Community they want.

High-policy goals have always been part of the aspiration behind the integration of Europe, but were long excluded from Europe's operational agenda by the dominance of the US in an international system.

They are now an unavoidable part of Europe's agenda.

Beyond 1992: Europe and its Western Partners CEPS Paper No 38; Peter Ludlow, Centre for European Policy Studies, 33 rue Ducale, Brussels 1000, Belgium.

Push for pact on disposal of hazardous waste

By Tim Dickson in Brussels

A MEETING aimed at preparing the ground for an international agreement on the disposal of hazardous waste gets under way in Luxembourg today.

The initiative, spearheaded by the United Nations Environment Programme, is being compared with efforts to protect the ozone layer which culminated in the Montreal protocol in 1987.

If this week's negotiations among experts from 50 countries are successful, a similar treaty laying down conditions for the disposal of hazardous waste could be signed in Basle in March.

"International movement of hazardous waste, when its purpose is better to protect human health and the environment, cannot, and perhaps should not, be abolished," Dr Mostafa Tolba, UNEP's executive director, explained. "We therefore have to control its movement and, more important, its final disposal, especially in developing countries."

The draft treaty to be discussed this week would deem illegal any trans-boundary movements or attempted movements where the countries concerned had not been notified; where a country had objected, or where approval by the exporter had been gained by fraud.

Signatories would have to introduce national legislation to prevent illegal traffic and to punish offences.

Among issues to be resolved this week are the rights and duties of transit coastal states in relation to their 200-mile limits; the status of "offshore" or "dependent" territories such as the British Channel Islands; flags of convenience; liability and compensation; and the precise criteria for allowing international traffic.

"Some organisations have estimated global movements at around 3m tonnes," says Mr Jan Huismans, a director of the Geneva-based International Register of Potentially Toxic Chemicals. "But I just wouldn't like to guess. The total annual inter-European movement is probably closer to 800,000 tonnes."

SHIPPING REPORT

Freight rates slip

By Kevin Brown, Transport Correspondent

PRODUCTION CUTS agreed by the Organisation of Petroleum Exporting Countries began to take effect in the tanker markets last week.

Rising oil prices caused by reduced production coincided with a build-up of very large crude carrier (VLCC) tonnage in the Gulf, causing freight rates to begin to slip.

Brokers said some owners were considering the possibilities of slow steaming back to loading areas, but there were doubts about whether this would be sufficient to shore up the market.

Ships of 220,000 dwt were being fixed at around Worldscale 43 from the Gulf to the Far East early last week. Later, a 260,000-ton tanker was unable to find a charterer at Worldscale 40 for the trip to the West.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Dec.'88	Nov.'88	Oct.'88	Dec.'87
UK (£bn)	exports	7.115	6.924	6.761	6.617
	imports	8.772	8.937	9.691	7.858
	balance	-1.657	-2.013	-2.929	-1.239
France (FFrbn)	exports	86.300	87.700	85.300	81.497
	imports	90.400	91.300	89.624	81.866
	balance	-4.100	-3.600	-4.324	-0.369
		Nov.'88	Oct.'88	Sept.'88	Nov.'87
W. Germany (DMbn)	exports	49.71	51.73	46.34	44.99
	imports	37.61	42.21	36.09	34.56
	balance	+12.10	+9.52	10.25	10.32
US ($bn)	exports	27.473	28.624	27.237	23.279
	imports	38.275	38.731	36.459	35.210
	balance	-10.802	-10.107	-9.226	-11.93
Japan (US$bn)	exports	22.770	22.084	22.244	19.794
	imports	14.608	13.602	14.398	12.233
	balance	+8.162	+8.482	+7.846	+7.561

COPERNICUS OR PTOLEMY?

PE-Ratios . . . . An Outdated Criterion? Enlighten Yourself on the Logical Market Determinants.

THE THEORY

In this day and age, you would be considered absurd if you adhered to the "Ptolemaic" theory, declaring that the sun revolved around the earth. The 16th Century Astronomer, Copernicus, changed our way of thinking about the revolution of the universe, stating that the sun was first in existence and the earth revolved around it. The investment world closely conforms with the Copernican view of the universe. Like the sun, the stock market existed first, and like the planets, the investors are at its will. Some investors, critical of the Tokyo market, cling to their own theories about how investments should be evaluated, adamantly following the ancient "Ptolemaic" theory. They point to sky-high PE-ratios and claim that Tokyo is much too expensive and that the market is unstable......instead of deepening their knowledge and enlightening themselves on the "Copernican point of view". It is important to examine the facts.

THE PROOF

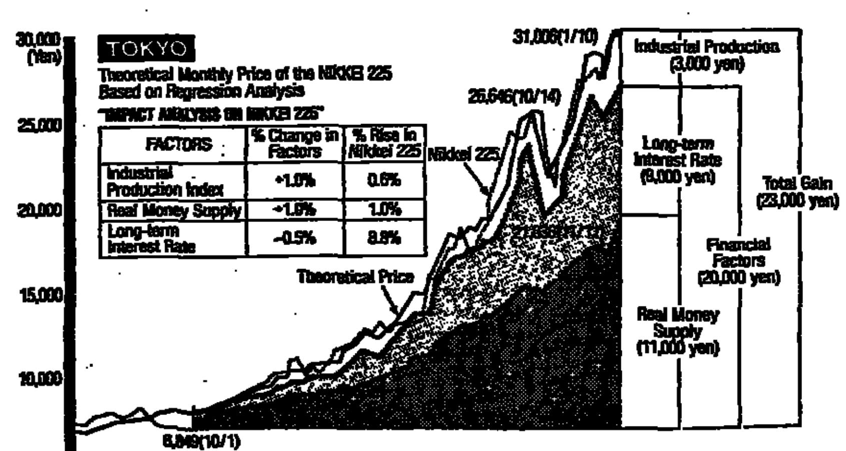
Since Black Monday, the Tokyo market has clearly outperformed the New York and European stock markets. As the largest of the world's stock markets, Tokyo constituted 44.2% of their entire capitalization as of December 1988. Analysis shows that Tokyo's quick rebound was a factor of market determinants which have always existed: strong corporate earnings performance, low and stable interest rates and ample liquidity. The Nikkei 225, like the New York Dow, has always been a mirror of the economic and financial market conditions of the nation. Further analysis of the Nikkei stock average shows that the three principle market determinants are industrial production, which is tied to corporate earnings, and the two monetary factors of long-term interest rates and real money supply. The Nikkei stock average is in an upward trend that is expected to continue, with steady growth in industrial production and real money supply, and a downtrend in long-term interest rates. Critics of the Tokyo market often fail to take into account monetary factors, which constitute an important part of the sum total of the fundamentals. In the graph below, we can definitely see the stock markets' sensitivity to changes in monetary factors. Since bottoming out at ¥6,849 in October 1982, the Nikkei index has risen roughly 23,000 points. Over this period industrial production expanded about 32% while real money supply doubled, causing long-term interest rates to fall approximately 40% from 8.3% to 4.9%. According to the regression analysis model, the growth in industrial production during this period contributed ¥3,000 to the ¥23,000 rise in the Nikkei index, while a decline in long-term interest rates was responsible for ¥9,000, and the growth in real money supply added a considerable ¥11,000.

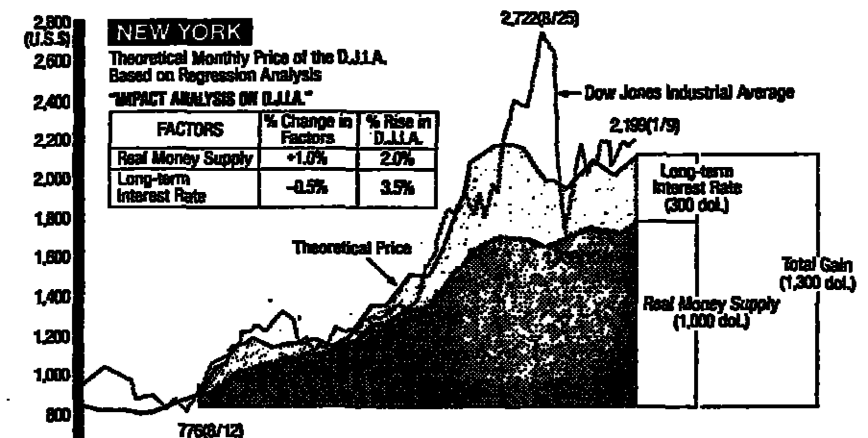
THE CONCLUSION

Both the Japanese and U.S. economies are expected to decelerate for the time being. The yen will probably remain under strong upward pressure, giving long and short-term interest rates room to fall. When forecasting the Tokyo market, or any of the world's equity markets, it is essential to examine financial factors such as real money supply and long-term interest rates, in addition to economic strength and corporate earnings performance. The PE-ratio, an often used measure of the relative value of a stock, merely reflects the movement of the stock market in response to these underlying market determinants.

Copernicus or Ptolemy? Enlighten yourself.

Analysis of Market Determinants and Their Contributions





Source: Hideo Nakazawa-Equity Department, The Nomura Securities Co., Ltd.

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UK NEWS

Fight begins over control of power stations after privatisation

Electricity set for final struggle

By Max Wilkinson, Resources Editor

THE BIG battalions of Britain's electricity industry have begun their last great battle before privatisation – about who shall control the nation's power stations.

The Government had hoped that this issue was settled by its white paper (policy document) a year ago, which announced the partitioning of the £40bn state industry between 17 private companies.

The white paper said the power stations would be owned by two generating companies in England and Wales and two integrated utilities in Scotland. Twelve distribution companies south of Scotland would buy power from the generating companies. A separate National Grid company would run the transmission network.

The Electricity Bill, now in its committee stage in Parliament, creates the legal structure for this new system. However, the shape of the contracts between the new competing interests is likely to be at least as important in determining the balance of power between distributors and generators.

Initial contracts must all be approved by the Government, as owner of the system, before it can be sold. They cannot be left to free bargaining because of the industry's monopoly characteristics. The Government must also agree contracts with the industry's main supplier, British Coal. These will determine the major part of the electricity companies' costs, perhaps for many years ahead.

Negotiations on these contracts are now a long way behind schedule because the two sides cannot agree on several basic principles, including the allocation of risks and the extent to which the contracts should allow generators to sell cut price industrial power.

The argument hinges on the size of the fixed charges, which distribution companies will pay to meet the capital costs of power stations for which they have a supply contract. These "capacity charges" will be paid even when the the plant is not running. A separate "energy charge" would be paid to cover fuel costs, only when power is needed.

In exchange for a high fixed charge, covering most of the capital cost, distribution companies want exclusive rights to the output of any power station – or part of a station – for which they hold a contract. If they did not need power at any time they could then re-sell it cheaply at close to the energy charge (roughly equal to its running costs).

This arrangement would would largely reverse the structure set out in the white paper. It would give the distributors effective ownership of power stations subject to renegotiation of their contracts.

The generating side of the industry complains that, even though it would nominally own the plant, power companies could be reduced almost to the role of franchised operators.

It is fighting back with a more flexible type of contact, which reduces the capacity charge. The energy charge would be correspondingly higher covering some capital repayment as well as fuel. This type of contract would give the generators much more effective control over their own plant. They would be able to use surplus capacity to sell at cheap rates in the industrial market.

The distributors argue that this would expose them to unfair competiton from generating companies, which would pick off their largest customers. The distributors would be unable to fight back, because their contracts would oblige them to pay more than the generator running costs for an extra tranche of power from any particular station.

This dispute, with arguments about the length of contracts and the allocation of plant to distribution companies, must be settled soon. In October the industry is supposed to start operating as if it were privatised.

Even though the contracts will have a profound effect on the structure of the industry, the Government will keep their terms secret. At least it will try. Editorial comment, Page 14

Future of 12 loss-making pits under review

By Maurice Samuelson

THE FUTURE of 12 more large coal mines, employing 8,000 miners, is to be reviewed over the next week or two as British Coal tries to stem its financial losses in the face of worsening economic and commercial pressures.

Nine of the collieries are in Yorkshire, in the north of England – the base of the militant National Union of Mineworkers – and three in Nottinghamshire, in the English Midlands where most men belong to the rival Union of Democratic Mineworkers.

In Yorkshire, British Coal managers will today begin to explain the extent of the problems at each pit. They will start final discussions which could lead to a recommendation that the pits are closed or jobs cut.

Together with more than 3,000 jobs under threat in South Wales, Scotland and the North West of England, the new round of talks are part of an attempt to reduce British Coal's workforce to little more than 60,000 by March 1990.

At present there are 87,000 men on colliery books, compared with 207,000 at the beginning of the 1980s. In the same period there has been only a marginal fall in coal output thanks to the introduction of heavy-duty equipment and more flexible working practices.

The National Union of Mineworkers yesterday said the latest closure threats further vindicated the 1982 claims by Mr Arthur Scargill, its president, that the coal industry had a "secret" plan to axe 70 pits and 70,000 jobs. The charges had been heatedly denied at the time, an NUM official said.

A squeeze on colleries is being intensified throughout Britain in anticipation of higher coal imports when electricity is privatised.

British Coal's earlier optimism about breaking even this financial year has been all but abandoned. It was forced to freeze prices of coal to power stations despite the coal industry's rising wages and other costs resulting from inflation and interest repayments on its huge debt.

Pledge on health care sought from Government

By Alan Pike and Philip Stevens

THE RESULTS of the Government's year-long review of health care will be published tomorrow in an atmosphere of controversy and critisism.

Labour Party leaks of the health white paper (policy document) led yesterday to demands from the Royal College of Nursing for a Government pledge that self-governing hospitals would remain within the National Health Service for at least 40 years, and warnings from the British Medical Association that it would resist attacks on patient care.

Mr Trevor Clay, general secretary of the RCN, said yesterday that the Government should hold a public vote before allowing a hospital to move out of health authority control.

A succession of leaks culminating in Mr Robin Cook, Labour's health spokesman, reading on Friday from what was apparently a copy of the white paper, puts ministers in the position of having immediately to defend rather than unveil their proposals.

It is expected that the white paper will encourage the NHS's larger hospitals to become self-governing outside direct health authority control, with responsibility for their own finances and pay negotiations.

It may also propose tax concessions to encourage greater take-up of private health care among the elderly, and move towards a system where family doctors would become budget holders, buying health care for their patients within an internal market, while imposing controls on general practitioners' drugs bills.

Water tariffs poised to climb sharply after flotation

By Richard Evans

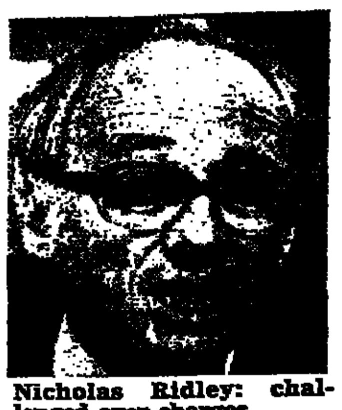
CONFIRMATION that large increases in water charges will be inevitable for many years after privatisation will come this week with the first in a series of announcements by water authorities of their tariffs for the coming year.

Increases from April 1 are being restricted by Mr Nicholas Ridley, Environment Secretary, to a range of from 7 per cent to 12 per cent, although many authorities have agrued that well over 20 per cent is needed to finance the huge capital programmes required.

The outcome of the series of tense discussions between the water authority chiefs and the Environment Department means that the average increase in charges will be restricted to single figures at 9.8 per cent. But it also calls into question the perception of the City of London towards the flotation of the 10 authorities in November, and the prospects for a successful sale.

There will be considerable political embarrassment for Mr Ridley, as the scale of the problems facing the industry become clearer. He has estimated that an increase in charges of up to 12.5 per cent to the end of the century will pay for the necessary improvements in environmental and drinking-water standards. This is now dismissed by industry leaders as "absolute rubbish."

"The current sums for the industry simply do not add up, and the Government has boxed itself into a corner because of



Nicholas Ridley: challenged over charges

Treasury restrictions," said one authority finance director. "We are not being allowed the money we need to finance our capital programmes, so charges are set to rise massively after privatisation."

The choice facing the Government has been whether to accept the industry's calculations on capital needs and allow a politically embarrassing increase immediately to pay for them, or to avoid charges of fattening up the industry prior before privatisation.

The series of tariff announcements over the next month, starting with Yorkshire water this week, will show that the Government is pushing the investment problems on to the privatised public limited companies.

There is no sign yet of substantial difficulty for ministers in getting the Water Bill, now in its House of Commons committee stage, through Parliament by July to allow for the autumn flotation. But the scale of the problems facing the industry and the means that will have to be found to solve them, will give opponents an effective weapon to fight the proposals.

The ever-increasing demands of the European Commission and environmentalists over improved drinking-water quality, cleaner beaches and more effective sewage treatment has meant that the authorities face a sharply increasing capital programme.

There is also the threat of prosecution if an authority fails to meet the tightening EC standards. No investor will be prepared to put money into a company under such conditions, so a series of temporary relaxation of consents is expected while the necessary investment is carried out to allow the industry to meet its environmental obligations. Two authorities, Thames and North West Water, have already faced prosecutions.

"The whole thing is a ghastly mess, which must now be cleared up because everything must be crystal clear in the prospectus," said one chairman. "The Government can fudge the investment issues no longer."

The industry, has been asked to make detailed assessments of its capital requirements for the 10 years after flotation.

Pay deals held at about 7%

By Our Labour Staff

PAY SETTLEMENTS since the start of this year are being sustained at about 7 per cent by higher inflation, strong company profitability and a tightening labour market, according to a survey.

Half of the January awards of between 4.5 and 6.5 per cent were the second half of two-year deals which were not linked to inflation. Those linked to inflation have provided higher increases.

The value of inflation-linking is emphasised by a two-year deal at Bristol docks which will give a December 1989 increase of 6 per cent, or the annual increase in the retail price index as currently calculated.

The clause follows speculation that mortgage interest rates may be excluded from the RPI. Incomes Data Services, the pay research group, says the clause suggests some "canny negotiation" by union officials.

A performance-related pay scheme for 1,700 staff at Abbey Life Assurance has produced an average increase of 8.3 per cent from January, with individual rises ranging between 0 and 21 per cent.

IDS says it found a variety of organisations reaching settlements in December or January at or around 7 per cent.

Engineers and technicians employed by Westland Helicopters at Yeovil have received increases of 8 per cent, made up of a basic 6.5 per cent together with 1.5 per cent allocated to a new performance-appraisal scheme.

IDS Report No 537; Incomes Data Services, 193 St John Street, London EC1V 4LS; By subscription.

Foreign manufacturers to gain most from telepoint

By Terry Dodsworth and Hugo Dixon

FOREIGN manufacturers seem certain to be the main beneficiaries of telepoint, Britain's pioneering pocket-phone service.

The service will allow people to make calls when they are within 150 metres of base stations, and tens of thousands of these will be installed across the country.

When Lord Young, the Trade and Industry Secretary, awarded four telepoint licences last week, he made great play of the fact that it was a British development.

Although most of the equipment will be made in Britain, however, the companies making it will be largely foreign. Foreign companies are also strongly represented in the consortia which won the licences.

Three separate elements are needed to run telepoint: pocket-phones, base stations and infrastructure for managing the networks.

Only two companies will be selling the pocket-phones – Shaye Communications and Ferranti. Each has developed its own proprietary technology, which is not compatible with the other's, but neither will engage in manufacturing.

Shaye, whose main shareholders are Scandinavian, will be using Philips of the Netherlands to make its pocket-phones in Scotland, while Ferranti of the UK will be using AB Microelectronics, a British company.

Shaye and Ferranti will also be the main suppliers of base stations. Again Philips will be Shaye's manufacturer, but Ferranti will produce its base stations at Communications & Control, a UK-based subsidiary of Siemens of West Germany.

There will be a wider range of potential suppliers for the computer systems to manage the networks. Leading contenders for producing the software are Logica of the UK, Motorola of the US, GPT of the UK, and Philips. The leading hardware manufacturers are IBM and Digital, both of the US.

Shaye's technology has emerged as the main choice so far for the current generation of telepoint. Two licensees have decided to use it – the consortium of Shaye itself, Motorola and Mercury Communications and the consortium of British Telecom, STC of the UK, Nynex of the US and France Telecom.

The only licensee to have chosen Ferranti so far is Ferranti itself. The other consortium – Philips, Barclays Bank and Shell – has yet to decide, but it may well opt for the Shaye technology too, as Philips is making it.

By the end of 1990, the two proprietary systems will be replaced with a single compatible system. At this stage, more manufacturers are expected to make pocket-phones.

Three British manufacturers – STC, GPT and Orbitel – have already said they plan to enter the market. However, they are likely to face competition from Motorola and a number of Japanese groups, which are the leading manufacturers of cellular phones. Nokia, the Finnish company which owns 25 per cent of Shaye, has said it too would make the phones if volumes were large enough.

Tools sales show plant output still behind EC

By Nick Garnett

BRITISH manufacturing is only struggling back to its relative size against European competitors in 1980 – in spite of the past few years of growth – according to a report on the use of a key production component.

The report, by market analysts Frost and Sullivan, examines the European consumption of cutting tools. These are fitted to all metal-cutting machines and as they are items which wear out, their consumption is an indication of factory workloads.

The report reveals a sharp decline in the UK's relative position between 1980 and 1983, with a recovery in later years in relation to France.

The report shows, however, that the UK has not regained its position relative to West Germany. It also shows that Italy has recorded the fastest growth of tool consumption in the European Community.

In 1980 the UK consumed $356m (£203.5m) of cutting tools, 69 per cent of West Germany's $519m. France was just below the UK with $324m, and Italy a poor fourth with $260m.

By 1983, UK consumption had slumped to $275m, less than half Germany's $610m, and both France at $341m and Italy at $299m had overtaken Britain.

Three years later, Germany was at $989m, with the other three countries registering consumption of just over $400m, with the UK behind but marginally ahead of Italy.

That year, 1986, was the last for which detailed statistics across Europe are available. However, the Frost and Sullivan report estimates that there has been little change in these relative positions since.

It estimates that consumption of cutting tools in Germany last year was about $1.2bn and in the UK, France and Italy about $500m each, but with the UK having the lowest consumption of the three by a small margin.

Consumable Cutting Tools Market. Frost and Sullivan, Sullivan House, 4 Grosvenor Gardens, London SW1W 0DH. $3,150.

Locals dig in to oppose superpit

Richard Tomkins on rural resistance to a Midlands coal mine plan

AN ODD sight greets the visitor who strolls across the village green in Meriden, West Midlands.

Next to the 500-year-old wayside cross that marks the traditional (if not strictly mathematical) centre of England, there stands a memorial inscribed with the words: "To the lasting memory of those cyclists who died in the Great War 1914-1918."

The monument exists because the fame of Meriden's landmark, combined with the loveliness of the surrounding Warwickshire countryside, has made the village a favourite meeting point for cyclists almost since cycling began.

In future years a rather different feature could put Meriden on the map. Just two miles down the road, at Hawkhurst Moor, near the picturesque village of Berkswell, British Coal is planning to construct a £400m superpit, which in output terms will rank as the biggest colliery in western Europe.

British Coal, however, has a fight on its hands. People living near the site are aghast at the implications of such a large development on their otherwise tranquil doorsteps, and have launched a vigorous campaign to oppose it.

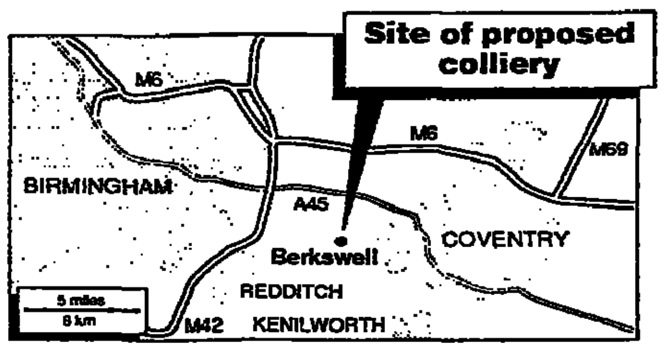
Tomorrow sees the beginning of the end of their fight when Mr Anthony Machin, an independent inspector nominated by the Lord Chancellor, will open a public inquiry into British Coal's application.

The pit that British Coal wants to dig would provide access to the Warwickshire Thick Coal Seam, a particularly rich deposit of about 400m tonnes of premium-grade coal spreading out from underneath Coventry to the city's south and west.

Two other pits in the area, Coventry and Daw Mill, give access to the Warwickshire seam, but British Coal says they will reach only 155m tonnes of it. Hawkhurst Moor will open up another 145m tonnes, while the rest cannot economically be mined.

The Hawkhurst Moor colliery would take about 10 years to build. When opened early in the next century it would produce 4.2m tonnes of coal a year, provide direct employment for 1,800 people and have a lifespan of about 40 years.

British Coal's two main difficulties at the public inquiry will be to prove that the mine is necessary at all and that it is so necessary that the environmental sacrifice will be worthwhile.



Berkswell: tranquillity is under threat from proposed pit

The pit is needed, says British Coal, because deposits of this quality are rarely found in such density and so close to the surface. The two existing superpits – Selby in Yorkshire and Asfordby in Leicestershire – are producing power station coal, whereas Hawkhurst Moor's will go predominantly to industry.

British Coal says that with supplies of oil and natural gas uncertain beyond the end of the century, and other pits gradually becoming exhausted, Hawkhurst Moor will be a vital source of energy for Britain and make a useful contribution to the country's balance of payments.

The opposition groups, however, question whether a market exists for the coal. They say the privatisation of power generation and the coal industry, together with the likelihood of further inroads into the UK market by overseas coal, throws future needs into uncertainty.

They deride British Coal's track record in market forecasting and say that even if the need did emerge for another 4.2m tonnes of high-grade coal a year, it could be met by increasing productivity at existing pits.

Leading the opposition on the economic and technical arguments will be the Tory-controlled Solihull Metropolitan Borough Council, in which Hawkhurst Moor lies. Solihull is one of the most prosperous areas around Birmingham and sees the proposed colliery more in terms of its potential threat to local amenities than as a boost for employment and industry.

On environmental issues, the loudest voice will be that of the Federation of Colliery Opposition Groups, a well-organised alliance of parish councils, residents' associations and other community groups representing about 50,000 people in the area.

The strength of the opposition should not be underestimated. As a dormitory area for Birmingham and Coventry, this stretch of countryside – known locally as the Meriden Gap – contains an unusually high proportion of influential and articulate people who do not yield easily to the crushing wheels of bureaucracy.

Dr Peter Lea, the federation's chairman and a Conservative councillor for Meriden, says one of the main planks of the opposition will be to point to the risks of annihilating what remains of the green belt separating the industrial conurbations of Birmingham and Coventry. This thin green line has already shrunk from a width of 20 miles at the beginning of the century to six miles now, he says.

"Our view is that a colliery here would be an environmental disaster of such magnitude that on those grounds, it cannot go forward," he says.

British Coal has gone to some lengths to reassure residents that the environmental impact would be limited. Traffic, dust and noise would be strictly controlled and the only significant visual intrusion would be two 60m-high winding towers.

Residents are sceptical. They are also unimpressed by British Coal's argument that the pit will provide much-needed jobs and pump £200m into the local economy over the next 10 years.

"Yes, there is an economic spin-off," says Dr Lea. "But although Coventry has got problems with unemployment, you could say it will have a negative effect because it will mean more heavy industry for an area that is developing business parks and high technology industries."

Opponents draw strength from last week's Monopolies Commission report into British Coal, which criticised the way in which the Asfordby superpit had been constructed without sufficient evidence that it would be more than marginally profitable. That, they feel, may encourage a more critical examination of the Hawkhurst Moor plans.

Which ever way the decision goes, it will be a long and tough fight. But estimates of the inquiry length suggest that it will take at least four months just to hear the evidence.

Harland likely to confirm redundancies

By Jim Flannigan, Belfast Correspondent

HARLAND and Woolf, the state-owned Belfast shipbuilder, is expected to confirm another major reduction in the workforce this week.

Trade union representatives fear about 700 redundancies will be announced just days before the province's main political leaders meet Mr Tom King, Northern Ireland Secretary, to pave the way for a meeting with Mrs Margaret Thatcher, the Prime Minister, to discuss the company's future.

Harland executives have been critical of the Government's handling of the sale of the yard. The company has had to turn down offers of work as ministers have made clear that intervention funds will not be available until the company is returned to the private sector.

Hotels benefit from business travel boom

By David Churchill, Leisure Industries Correspondent

BRITAIN'S hotel industry benefited last year from a boom in business and conference travel as well as more Britons taking short-break holidays in the UK, according to a report on the hotel industry by stockbrokers Kleinwort Benson.

"The highlight of the year was the strong growth across the UK in the business traveller market," says the report.

It adds: "Not only is this a function of the nationwide growth in the economy but it also reflects changes in the structure of industry which requires more business travellers to use hotels."

The report points out that the use of hotel rooms throughout Britain was up by 6.6 per cent in 1988 compared with the previous year. This meant that overall room occupancy in hotels reached 70 per cent last year.

However, much of this growth was seen outside London, which recorded a fall of 1.4 per cent in room usage. "The evidence is now clear that the provinces are continuing to grow at a faster rate," says the report.

This year Kleinwort Benson expects demand for hotel beds to stay buoyant.

Mr Paul Slattery, Kleinwort's hotel analyst, believes that Americans will not be deterred from coming to the UK as a result of the Pan Am bombing and other recent terrorist activities as they were in 1986.

Moreover, he believes that Britons will increasingly decide this year to switch from a Mediterranean holiday to one in Britain.

Housebuilders to expand operations in Europe

By Andrew Taylor, Construction Correspondent

WEST GERMAN, French, Dutch and Spanish people may soon buy homes on the Continent from British housebuilders seeking to expand operations in Europe.

Barratt and Beazer, two of Britain's biggest builders, have recently started housebuilding businesses in France, and Beazer has already completed its first deal for 38 houses and 40 flats at Vaires-sur-Marne to the east of Paris.

Beazer, which has formed a joint venture with Les Nouveaux Constructeurs, the publicly quoted French builder, is negotiating for a further 33 flats and commercial offices at Asnières-sur-Seine to the north west of Paris.

Mr Eddie Frith, director of Beazer Homes, said the company was examining possibilities for a similar operation in Spain.

Barratt, which established a wholly owned French housebuilding subsidiary just before Christmas, says it has identified several sites for possible development in the north and south of the country.

Laing Homes, another leading British housebuilder, says it has started talks with potential partners in southern Germany and Holland, where it hopes to start operating next year. It also wants to build houses in France and Spain and is looking at development possibilities in northern Italy and Greece.

Mr Ian Jones, managing director of Laing Homes, said the company had developed a profitable housebuilding business in the US and wanted to do the same on the Continent.

The company would be looking for markets where it would be able to build 800 to 1,000 homes a year. The best way of doing this would be through joint ventures or by acquiring a local housebuilder, he said.

Mr Jones said British companies would need local partners to help them cope with different attitudes to housing, different ways of financing house purchases and different planning arrangements.

He said the prospect of European Community trade barriers being dismantled in 1992 had encouraged British housebuilders to look for opportunities in other EC countries, although Laing would have wanted to expand on the Continent anyway.

Bovis, another British housebuilder, says it has been examining the housing market in France and West Germany but has no specific plans yet.

Wimpey, which has been building homes around Paris since the mid-1970s, plans to expand its operations to Lyons, where it hopes shortly to be building about 100 homes a year. Last year Wimpey built about 300 homes around Paris.

Mr Alan Goudie, a director of Wimpey Homes, said the company had looked at West Germany, but the housing market there had been depressed in the last few years.

Sinn Fein says IRA has to be careful

By Kieran Cooke in Dublin

THE Round Room in Dublin's Mansion House was built early in the last century to receive King George IV on a visit to Ireland. For the last few days it has been decorated with pictures of dead IRA "volunteers," the better to fit its weekend role as the setting for the party conference of Sinn Fein, the IRA's political wing.

Enlarged photos of the 14 IRA "volunteers" killed in the last year, including the three shot by the SAS in Gibraltar, were stuck on the walls along with posters attacking Mrs Thatcher and Mr Charles Haughey, the Irish Prime Minister.

Several former Republican prisoners were in the audience. IRA "old timers" such as Mr Joe Cahill, Belfast IRA commander in the early 70's, strolled around.

At one stage in the proceedings press and observers were cleared from the conference hall: in the past an IRA operative has read out a report from the IRA's Army Council on the *state of "the struggle"* against the British forces.

Irish special branch detectives took pictures of everyone arriving and leaving the hall: party officials thoroughly searched all visitors.

Some Irish politicians had been fiercely critical of the decision to allow Sinn Fein access to one of Dublin's prize venues, in the very heart of the city.

Mr Desmond O'Malley, the leader of the Progressive Democrats Party, described Sinn Fein's presence in central Dublin as a "disgusting perversion." Not long ago people had queued at the Mansion House to sign a book of condolence for the people killed in the IRA bombing at Enniskillen. Now the building was being used "by the same people who planned, co-ordinated and justified that bombing and many others," said Mr O'Malley.

Yet for all its fearsome trappings and associations, Sinn Fein's conference was a remarkably mild affair.

Delegates were addressed as comrades. A banner behind the stage proclaimed liberty, equality and justice. Party paraphernalia on sale included "Onwards to victory" IRA buttons, and framed poems in memory of Mairead Farrell, one of the three killed in Gibraltar.

Mr Gerry Adams, the pipe-puffing Sinn Fein President and MP for West Belfast, chatted amiably with visitors. His party address was a mixture of low-key pragmatic politics and assertive Republican rhetoric.

Mr Adams warned that Sinn Fein's "big ideas" about liberation, nationalism, independence and socialism should not dwarf the smaller struggles about local grievances.

Mr Adams criticised but also praised the IRA. Its operations over the last year had caused a "regrettable level of civilian casualties and fatalities," said Mr Adams. The IRA had to be more careful.

"Nothing I say should be interpreted as a condemnation of the IRA . . . I salute them as freedom fighters," said Mr Adams to loud applause from the 500 delegates in the hall.

But much of the talk at the conference did not concern the IRA. Resolutions ranged from criticism of Mrs Thatcher's Government for increased dental charges to support for resistance groups in Chile to the state of Northern Ireland's rural roads.

Sinn Fein is preparing for local elections in Northern Ireland in May and European elections in June. It has more than 50 local councillors in Northern Ireland with about 11 per cent of the total vote and about 35 per cent of the Catholic vote.

Although Sinn Fein regards itself as a pan-Ireland movement it has very little support – under 2 per cent at the last election – in the Irish Republic. The party executive is dominated by Northerners: most of the issues discussed concerned Northern Ireland.

There is no doubting the political acumen of Mr Adams and other leading members of the party. Although TV and radio interviews with Sinn Fein members are now forbidden in Britain and the Irish Republic, the party has a well-oiled publicity machine.

The British Government has consistently refused to talk to Sinn Fein because of its refusal to renounce the use of violence. But the party has a considerable level of support in Northern Ireland, particularly in poorer nationalist areas.

In the run-up to local elections it cannot be dismissed, in spite of its continued support for the IRA. "We are determined to broaden our political base and we want to be a creditable political alternative," said one conference delegate.

As unpalatable as it may be to both the London and Dublin governments, Sinn Fein is likely to be around for a long time yet.

DoE warns local councils over anti-competitive practices

By Richard Evans

A "DISTURBING" number of local authorities have been including anti-competitive clauses or conditions in contract documents sent to private sector companies submitting tenders for council work.

The Department of the Environment, responsible for monitoring the working of the competitive tendering legislation, has already warned more than 20 authorities they risk action for anti-competitive practices.

DoE officials believe that many of the initial teething problems with competitive tendering stem from ignorance and inexperience of tendering in local authorities rather than malice, but some contract terms have been judged to be deliberately anti-competitive.

The latest situation, six months before August 1, the first date for the phased introduction of compulsory competitive tendering in six council services, has been analysed by the Public and Local Service Efficiency Campaign (Pulse), an organisation in favour of privatising council services.

Its findings, published today, conclude that a large number of councils have decided to invite tenders well ahead of the deadlines required under last year's Local Government Act for the services of refuse collection, street cleaning, schools catering, cleaning of buildings, and ground and vehicle maintenance.

A record number of eight councils have privatised refuse collection in the last year, and management buy-outs have become more commonplace. The largest service ever privatised has been awarded by Westminster City Council to a management buy-out led by three council officers. The five year refuse collection and street cleaning contract is worth about £60m.

Pulse found that Labour as well as Conservative councils were privatising services. Birmingham City Council has contracted out computing and high-tech cleaning, and Warwickshire County Council, also Labour led, has privatised its architects department. Two others, the London Borough of Brent and North East Derbyshire, are considering contracting out refuse collection.

One reason given for the early moves is that competitive tendering should lead to increased efficiency through keenly priced tenders from contractors seeking to establish a foothold in the market before a rush of tenders emerges when the compulsory powers are introduced.

The "most blatant" example of anti-competitive clauses, according to Pulse, has been used by Norfolk County Council, where tender documents require all contractors to have £6m of public liability insurance at the time of tendering, and to have a branch office in the area.

Some councils are charging excessive amounts for tender documents, such as the London Borough of Brent, which is demanding £150 for the specifications for its office cleaning.

Hattersley attacks sell-off

By Philip Stephens

THE Government's confirmation that it is considering transferring some Home Office police support services to the private sector yesterday prompted a strong attack from Mr Roy Hattersley, Labour's shadow home secretary.

Mr Hattersley released the text of a letter from Mr Douglas Hurd, the Home Secretary, in which Mr Hurd said that the Police National Computer Organisation, the Directorate of Telecommunications and the Forensic Science Service were being reviewed.

The study was at an early stage, but the object was to decide which of the organisations' functions should remain with central government, which could be privatised and which transferred to new executive agencies.

Consultants from County Natwest, the investment banking arm of National Westminster, were due to report on possibilities at the end of March, Mr Hurd said in the letter.

In a statement yesterday, Mr Hattersley said that plans threatened to undermine the basis on which the public co-operated with the police.

The three services involved the retention, communication and administration of highly confidential information. If those functions were transferred to the private sector the understanding that the information would remain confidential could no longer be guaranteed.

Mr Hattersley said that the Police Federation was gravely concerned by the move and he called on Mr Hurd to abandon the review.

Prudential raises new venture funds

By Charles Batchelor

PRUDENTIAL Venture Managers, the venture capital arm of Prudential Assurance, has raised two new venture capital funds with a total of £65m to invest in management buy-outs and unquoted companies.

Seven pension funds have invested a total of £40m in the Prudential Development Capital Fund in amounts of between £1m and £15m each while the Unilever Pension Fund has put £25m into another fund. The development capital fund takes the form of a unit trust while the Unilever money will form part of Venture Managers pool of funds and has no formal title.

Venture Managers has invested £110m in unquoted companies since it was set up in 1980 but this will be the first time it has managed funds provided by institutions other than the Prudential itself and the Prudential staff pension fund.

The compound annual return on investments made since 1980 has been 25 per cent though in the three years 1985-87 the return has been 38 per cent.

Venture Managers expects to take three years to invest the new funds. Together with the £30m which the Prudential Corporation makes available each year for unquoted company investments, Venture Managers will have £155m to invest in this sector over the next three years.

By taking on outside funds Venture Managers will make greater use of its 11 venture capital managers and will also be able to fund larger deals than would have been possible from its own resources.

It expects to invest £40m this year in amounts of between £500,000 and £20m mainly in buy-outs and later stage expansion capital but it will finance a small number of start-ups, according to Mr Paul Brooks, managing director.

Most of the investments will be in the UK but Venture Managers has formed links with venture capital funds in France and Germany. It is investing in these funds but also investing directly in companies in these countries.

Venture Managers made 20 investments last year of which two-thirds were management buy-outs or buy-ins. Since 1980 it has invested in nearly 200 companies of which 25 have been floated and 57 sold to a corporate buyer.

Unilever Pension Fund also has about $30m worth of investments in four US venture capital funds.

Nikki Tait writes: A new housebuilding company, Admiral Homes, is being set up with £75m of venture capital finance – making it, according to backers Phildrew Ventures, Britain's largest start-up to date.

The new company, which is headed by Mr David Holliday, 41 and formerly chairman of Laing Homes, plans to concentrate on the south-east. It has targeted housing for the elderly and single persons, in particular.

At present, the company has acquired neither sites nor – aside from Mr Holliday – staff. The plan is to start buying land by this summer, so that the first release of houses takes place by mid-1990.

Labour may change mortgage relief policy

By Philip Stephens, Political Editor

THE LABOUR Party is considering a plan to restructure the tax-relief system for mortgage interest payments to restrict benefits for the wealthy and give additional assistance to first-time buyers.

Mr Clive Soley, Labour's housing spokesman, said yesterday that the proposals would be studied by the party's housing review committee on Wednesday.

Labour plans to restrict mortgage interest relief to the basic rate of tax, but Mr Soley's plan would take that further by phasing out gradually basic-rate relief for the higher paid.

Mr Soley said that no firm earnings thresholds for such a system had been set, but suggested that loss of tax relief might begin for those earning around £20,000 a year. The loss of relief would then increase on an upward, sliding scale until it was eliminated entirely for those earning perhaps £100,000 a year.

He stressed, however, that the underlying philosophy of any changes would be to ensure a fairer system for both those in the rented and owner-occupier sectors.

He said Labour was also determined to avoid hardship for existing owner-occupiers.

That commitment could mean that the changes in the system might apply only to new mortgages.

First-time buyers would also benefit from the new system under a proposal that the £30,000 threshold would be raised for those making their first purchase, perhaps for a fixed period of 10 years.

Mr Soley said that his plans were being co-ordinated closely with other aspects of the Labour's review of its economic strategy, and said that they still had to be approved by a number of committees before they could become firm party policy.

To Moscow in search of a policy

Michael Cassell explains Labour's difficulties on nuclear weapons

AN UNLIKELY delegation from Labour headquarters in London's Walworth Road flies to Moscow today on the next leg of a make-or-break mission to construct a defence policy which the party and British voters can buy.

The four-man team, which will spend this week meeting Soviet defence and foreign ministry officials, includes Mr Gerald Kaufman, shadow foreign secretary, and Mr Tony Clarke, chairman of Labour's international committee and deputy general secretary of the Union of Communications Workers.

They will go with Mr Martin O'Neill, the party's defence spokesman, and Mr Ron Todd, general secretary of the Transport and General Workers' Union.

It was Mr Todd and his block vote who last year trampled unceremoniously on ill-timed efforts by Mr Neil Kinnock, the Labour leader, to remove Labour from the straightjacket of "something for nothing" unilateralism.

In its place, Mr Kinnock pushed for a more flexible approach to securing the party's non-nuclear objectives, leaving open the full range of multilateral, bilateral and unilateral possibilities.

His suggestion of a possible "bonus" for Britain and the world, in return for decommissioning its weapons, at once enraged those for whom the unilateral act, by definition, demands no quid-pro-quo.

Labour's opponents have already made much of the prospect of Mr Todd sitting across the table from the likes of Mr Alexander Yakovlev, a senior member of the Politburo and chairman of the international committee of the central committee of the Communist Party of the Soviet Union, to talk about battlefield nuclear weapons and asymetrical arms reductions.

The reality, however, is that the four men – drawn from the nine-strong review group examining Labour's foreign and defence policies – do not expect to be negotiating anything. Mr Todd will inevitably have his say but it will be at the party conference in Bournemouth this autumn, not over tea at the Kremlin.

The week will, instead, be devoted to fact-finding and to preparing the ground for a complete rethink of what, for Labour, is the most sensitive and potentially calamitous policy issue of all.

It is not too melodramatic to suggest that, if Labour fudges defence this time round, the leadership's hard-won grip on the party could rapidly loosen. Failure could wreck any prospects the party has of avoiding a fourth consecutive general election defeat.

Party leaders are acutely aware of the need to convince voters that, on this occasion, Labour has formulated a convincing and workable defence posture which puts the security of the nation before the need for political self-preservation.

The exercise takes place against a background which Labour believes offers the best prospects for peace and disarmament since 1945 and which it hopes will enable it to capitalise on any public misgivings over the present Government's rigid defence posture.

Labour's message is that while the Soviets and the Americans share a dream of ridding the globe of nuclear weapons, Mrs Thatcher has no such vision. As an example, it points to her determination to modernise battlefield nuclear weapons, just when Europe is cooling towards the idea.

At the last general election, Labour was committed to decommissioning Polaris and cancelling its more powerful, £9bn Trident successor. The funds saved would be used to modernise and equip conventional forces, which the party now says must also be cut in response to recent Soviet offers. In addition, it pledged itself to removing the nuclear capacity of British-based US F111 bombers.

By 1991, however, expenditure on Trident will have peaked, and three years later the weapons system is scheduled to begin entering service. As for US bombers, Mr O'Neill says the removal of US nuclear facilities from Britain would not add "one jot or comma" to the safety of Britain or Europe if the weapons simply went elsewhere.

Mr Kinnock plans his own visit to Moscow to see Mr Gorbachev, though he recently stressed he is in no rush. He said that the more developments there were, the more they would have to discuss.

In the meantime, the challenge for Labour is to set out a programme for achieving its non-nuclear objectives within a practical, political framework. It knows that any formula it agrees must not disturb the delicate balance of superpower arms negotiations and must benefit the disarmament process.

Last, but by no means least, it must avoid provoking a suicidal fight to the finish, between the unilateralists and multilateralists within the party.

The party's case for a "no first use" NATO strategy and for the creation of a European, nuclear-free corridor designed to limit the chances of nuclear escalation might win it friends.

Although Labour claims Britain's own nuclear deterrent is irrelevant in the context of the East-West nuclear stockpile, it is the issue on which the electorate wants a simple answer.

Mr O'Neill goes to Moscow with an apparently open mind. He and his colleagues will ask the Soviets if unilateral action by Britain would be likely to benefit or undermine superpower talks.

The chances of a bilateral deal will also be explored, though the missile-for-missile plan suggested when Labour leaders were last in Moscow in 1984 is ruled out, given the imbalance argument. Such an approach could, however, help unjam any future blockage in US-Soviet negotiations.

Labour's team will also be anxious to examine the multilateral option and the possibility, for example, of putting Trident into the second phase of Strategic Arms Reductions Talks (START 2) on long-range missiles. The idea has already won support but Labour knows it would have a job constructing a solid strategy on such shifting ground.

One thing is clear. While the leadership acknowledges the uncompromising passion of its pacifists, a theme to be developed in the coming months will be that any form of withdrawal from the nuclear club will take time; the old, ritualistic demands for disarmament in days, weeks or months are dismissed.

The question is whether Labour's pre-occupation with establishing the means of achieving a non-nuclear Britain will still leave it with a policy which is unacceptable to the voters. How seriously, in any case, will the electorate or the Soviets take a negotiator whose final position has already been declared?

Labour's view that Britain does not need to retain a nuclear strike capacity for as long as the Soviets will not be an easy one to sell.

THE LABOUR Party expects the present Soviet regime to go considerably beyond "missile-for-missile" reductions in arms negotiations with a future Labour government, Mr Martin O'Neill (right), the party's defence spokesman said yesterday, writes Philip Stephens.

Mr O'Neill, who is travelling to Moscow with a Labour delegation today, said that the aim would be to explore how Mr Mikhail Gorbachev, the Soviet leader, would respond to an offer by Britain to dismantle its nuclear weapons.

He stressed that Labour's position on whether to opt for multilateral or bilateral negotiations with Moscow remained open. "No options have been discarded at this stage," he said.

Speaking on BBC television, Mr O'Neill said, however, that the Soviet Union would "have to pay a great deal" in return for the UK giving up nuclear weapons.

Channon urged to reduce air traffic at Heathrow

By Michael Donne, Aerospace Correspondent

AN IMMEDIATE cut in the annual number of aircraft movements at Heathrow has been urged by the airport's leading environmental group, the Heathrow Association for the Control of Aircraft Noise (Hacan), in a letter to Mr Paul Channon, Transport Secretary.

The association wants to see a limit of 300,000 aircraft movements a year imposed immediately. Since last year's total of aircraft movements at Heathrow was 326,900, the proposed limit, if implemented, would mean a cut of some 7.5 per cent, with serious consequences for airlines using the airport.

Mr John Boulton, chairman of Hacan, says in his letter that rather than wait for proposals from the Civil Aviation Authority on how to meet demand for increased airport capacity in the London area (on which a consultation paper is likely this week), the minister should move now to impose a limit on Heathrow flights.

Apart from the noise problems involved in the continued growth in aircraft movements, Mr Boulton says that the Lockerbie disaster opened up the possibility of something similar happening at Heathrow.

Hacan says that the Government should divert excess flights from Heathrow to less congested airports, put more urgency into the airport planning programme with increased reference to residential interests, and install some monitoring body to report directly to the minister on air traffic safety in the London area.

Mr Boulton says that the London area's air traffic control equipment is "out of date, the number of flights is increasing and more are being demanded by users and operators – and now, two crashes. The 'London scenario' is already in place."

British Airways may open continental 'hub' airport

By Michael Donne

BRITISH Airways is considering the possibility of creating a "hub" airport comparable to those of Heathrow and Gatwick, somewhere on the Continent, to meet the challenges of increased traffic and fiercer competition in the 1990s.

Sir Colin Marshall, chief executive, hints at such a possibility in an interview in the current issue of Business magazine. A "hub" airport operates a large number of international services, long and short-haul, radiating in all directions.

Whether such a hub would be operated solely by BA, or in partnership with another leading airline "is largely going to depend on officialdom. There are several places where we think it would make sense," – although he does not identify them.

Alternatively, BA could link with another European airline, to help create the "mega-carrier" that BA believes is essential to fight off US competition.

Sir Colin believes that it is "almost inevitable" that there will be such airline joint ventures in the 1990s.

"In the first phase, it would be a question of co-operation, purely commercial, perhaps with some modest shareholding. Over a period of time, there could be a full merger," he said.

Food market 'will not sustain existing retailers'

By Maggie Urry

THE FOOD retailing market offers insufficient growth "to sustain the sales and profits expansion requirements of five leading public companies," concludes a survey on grocers and supermarkets by a retail research firm.

The report from Verdict Research predicts that the early 1990s will be a tough period for food retailers. Already the five leading groups have 58 per cent of the market between them, up from 42 per cent five years ago. Three-quarters of that growth has been "bought" through acquisitions, Verdict says.

"Further realignment among the leaders is anticipated," the report suggests. However, Verdict predicts that "the second half of the 1990s promises a bonanza for the major grocery players which survive the first half."

Tesco is currently the UK's largest food retailer with a 14.2 per cent share, just ahead of J. Sainsbury at 14.1 per cent, Verdict estimates show. Third comes Gateway, which has been built up in the 1980s through mergers, with 11.4 per cent. Argyll comes fourth with 10.2 per cent, promoted from being a "good second division player" by its purchase of Safeway two years ago. Fifth is Asda with 7.7 per cent, a rise from 7.4 per cent a year ago.

Verdict on Grocers and Supermarkets. Verdict Research, 112 High Holborn, London WC1V 6JS. £450.

UK NEWS

Standard Life tied agency plan draws poor response

By Eric Short

STANDARD Life, one of Britain's largest life companies, has been surprised by the lack of response from independent advisers after its announcement it was setting up a tied agency operation.

Mr Tom King, general manager (marketing) at Standard Life, said the company had received about 1,000 inquiries and about 100 advisers had applied to become tied agents, mainly the smaller firms.

This experience contrasts with that of Standard Life's rival companies Norwich Union Life Assurance and Scottish Amicable Life Assurance Society when they announced the setting up of tied agency operations.

Norwich Union received about 4,000 inquiries and several hundred applications to become agents, even though the company claims not to be aggressively recruiting tied agents.

Scottish Amicable received 500 inquiries on the day following its announcement, but has not kept a subsequent tally of numbers since much of the promotion is being handled by its inspectors.

These three major life companies were until recently leading supporters in the Campaign for Independent Financial Advice (Camifa) and had pledged only to do business through independent advisers.

Norwich Union was the first to announce a change in marketing strategy in the middle of last month, followed after a few days by Scottish Amicable.

However, Standard Life delayed its announcement until well after the new year and this delay could have accounted for the lower response, not only because it was last but because conditions have changed radically since the announcement by Norwich Union.

At present, the amount of commission received by independent financial advisers is controlled by a maximum commission agreement laid down by Lautro, the Life Assurance and Unit Trust Regulatory Organisation.

However, intermediaries who are tied to one life company are not subject to this agreement and receive well above this scale.

Norwich Union and Scottish Amicable have both published details of their tied agency operations which would pay remuneration of up to 30 per cent more than the agreement scale, depending on the size of business. Standard Life hopes to publish its terms later this week.

Many independents are seeking to switch to a tied status to get more remuneration, free technical assistance and to avoid the worst consequences of authorisation required for independent advisers.

However, last week, Mr David Walker, chairman of the Securities and Investments Board, indicated there will be considerable relaxations in the maximum agreement by July at the latest.

In addition, SIB has also indicated that independent advisers can deal with just one life company for a particular sector of their business and still conform with the good advice requirements provided they have chosen the company on merit and continually review their choice.

As such, independent advisers believe that they could be receiving higher commission very shortly and are deferring any action to switch to being a tied agent.

However, Mr King warned intermediaries not to expect 30 per cent higher commission automatically.

Higher payments, he said, would have to be justified by higher business volumes and accompanied by cost savings, such as the use of various standard computer-based operations such as OPUS – On Line Proposal Underwriting System.

An intermediary who still continued to pass over paper when doing business, so that the life company had to do all the processing, might not receive much in the way of extra remuneration.

Consumer confidence 'lowest for two years'

By Ralph Atkins, Economics Staff

CONSUMER CONFIDENCE in the last three months of 1988 fell to the lowest level for two years, according to a report published today.

Staniland Hall, the business forecasting group, also predicts that house prices will rise by just 2.5 per cent this year and dip slightly in 1990.

It says: "This, we believe, reflects the easing in consumer confidence now apparent and will, in turn, further weaken confidence. It will also mean substantially less equity withdrawal to boost consumer spending."

House prices rose by 35 per cent during 1988, it says.

Staniland Hall's index of consumer confidence is based on Gallup Poll data and includes questions on prices, the general economic situation and households' financial situation. In the final three months of last year it was lower than in any quarter since the end of 1986.

The results show that more than a third of households said their own financial situation had worsened in the past 12 months. A quarter expected it to deteriorate in the next 12 months.

Consumer confidence fell fastest at the end of last year in the 18-to-24-year-old age group, the report says. Women were slightly less confident than men.

Staniland Hall says the fall in confidence points to an increase in savings as a proportion of personal incomes.

Growth in consumer spending is expected to moderate this year, increasing by only 2 per cent in volume compared with 6 per cent in 1988. Slow growth is also expected in 1990 before a pick-up in 1991.

Spending on durable goods is expected to be hit hardest and car registrations are expected to fall slightly this year.

However, spending on clothes and holidays or travel may hold up better.

Consumer spending forecasts, January 1989. Staniland Hall Associates, PO Box 643, Alderbury House, Upton Park, Slough SL1 2UJ. £110.

Extremely difficult year predicted for smaller companies

By Vanessa Houlder

THIS YEAR will be "extremely difficult" for smaller companies, according to a review by stockbroker Barclays de Zoete Wedd published today.

High interest rates, increased pressure on margins and reduced scope for acquisitions will hit earnings growth, it says. As a result, shares on the Unlisted Securities Market could severely underperform those on the main market.

The report argues that if the UK economy has a difficult year, USM companies could suffer most. The hardest hit will be those that have a narrow spread of activities, rely on a small number of customers and have no export sales.

In addition, the high margins enjoyed by the majority of smaller companies will come under pressure from bigger competitors, suppliers and customers.

The ability to grow through acquisitions will be blunted, because higher interest rates and the lower stockmarket ratings afforded to USM companies make acquisitions through shares more expensive. Higher interest rates will also cramp growth in companies with large borrowings.

The authors of the review say there is already clear evidence of these trends. The earnings forecast of an increasing number of companies such as Bluebird Toys, Coated Electrodes, Mrs Fields and Kitty Little are being lowered, with a severe effect on their share prices.

The report says small companies which can outperform the market are those with strong management teams and strong organisational structures. Successful managements will be those which have worked previously in major organisations and have been through the peaks and troughs of the economy.

In spite of the prospect of falling share prices, the stockbroker believes that companies will not necessarily be vulnerable to takeover. If there is a downturn in the economy, strong companies may want to buy medium-sized or large companies with a broad spread of businesses, rather than troubled smaller companies.

"It could well be, therefore, that we enter 1990 with many more shell companies amongst smaller companies," says BZW.

The worst performing shares in the past three months have been those of companies which have sharply reduced growth expectations, while companies being acquired comprise most of the best performing stocks.

Market change 'may hit pubs'

By Lisa Wood

DEMOGRAPHIC changes may force brewers to re-examine their marketing strategies for pubs, according to a market research organisation.

Euromonitor says in a report published today that the decline of the 18-24 age group as a percentage of the population could limit the viability of "themed" pubs and other pub concepts which are aimed at the high-spending younger market.

The British pub will survive, says Euromonitor, in spite of the Monopolies and Mergers investigation into the pub trade, static beer sales and the growth of alternative leisure pursuits. The report adds that pub catering, once a choice between a pork pie or a pickled egg, is now the sector's possible saviour.

The introduction of more flexible licensing hours in 1988 gave added impetus to catering, but Euromonitor warns brewers to conduct detailed consumer research before converting traditional watering holes into French-style brasseries.

In 1987 pub catering was worth £2.6bn according to the report – an increase of 538 per cent over the 1977 figure of £400m. As a proportion of the total consumer catering market, the pubs' share grew from 15 per cent to 28 per cent over the same period.

Alcoholic drinks will still account for the largest percentage of pub turnover, however, well into the 1990s. The report says: "The trend away from bitters to lagers, and especially high-priced premium brands, increasing sales of soft drinks and low and alcohol-free products and better marketing of wines in pubs all pointed to their retaining a drinks retailing function."

The UK Pub: Prospects into the 1990s. From Euromonitor, 87-88 Turnmill St, London EC1 Price £375.

Aerosol makers hit back following bad publicity

By Maggie Urry

A *CAMPAIGN* to illustrate the positive aspects of aerosols has been launched by the British Aerosol Manufacturers' Association.

Leaflets entitled "Aerosols for Living" and extolling the virtues of the package which makes "life so much easier" will be distributed to schools, libraries and supermarkets.

Aerosols have been the butt of much criticism recently, mainly because of their use of chlorofluorocarbons (CFCs) which are thought to damage the earth's ozone layer. The association says by the end of this year 90 per cent of aerosols will be free of CFCs.

Butane is the most likely replacement as the propellant gas which makes the spray work. The association says butane is safe as long as aerosols are used correctly.

The sale of aerosols has not been dented by environmental fears, the association believes. Growth rate may have slowed in 1988 from the 9 per cent a year of the previous few years.

The association advises that members mark aerosols as being CFC-free when appropriate.

MANAGEMENT

Ford's manufacturing plants

Dagenham's decline is Genk's gain

Charles Leadbeater assesses the US auto giant's decision to concentrate its Sierra production line in Belgium in the context of the strengths and weaknesses of the two facilities affected

When John McLoughlin rang a handbell to summon an unauthorised meeting of workers at Ford's Dagenham body plant in January 1957, he became known as the "bellringer". The incident led to the kind of events which litter the plant's history; McLoughlin, a shop steward, was sacked, never to return. The men retaliated with a strike.

The British car industry unions believe a much more sinister bellringer has come to Dagenham in the shape of Bill Hayden, Ford of Europe's vice president for manufacturing. He it was who hatched the plan to transfer production of the Sierra from Dagenham to Genk in Belgium, leaving the British plant with 500 fewer jobs to produce a single model, the hatchback Fiesta.

Genk is a quiet, conservative, Catholic town, with a reputation for skilled, industrious workers, and flexible unions. Dagenham's culture is a cocktail of sprawling housing estates, the raucous fashions of London's east end, and the traditional militancy of the British dock and car industries.

Dagenham, which was the largest car plant outside the United States when it opened in 1931, could well become a peripheral outpost in Ford's global empire. In contrast, the Genk plant, built in 1962, could become an increasingly important part of the company's European line of defence, with more than 10,000 workers producing Transit vans as well as the Sierra, and its replacement, the CDW 27, still at the design development stage.

The significance of Dagenham's decline stretches well beyond the impact on the workforce. For those grimy 1,000 acres, in the industrial wasteland east of London, have a central place in the development of British manufacturing.

In 1921 the London County Council started its slum clearance programme and chose the Essex village for major development. In the decade to 1931 more than 20,000 council houses were built and the population rose from 9,000 to 90,000.

Ford's introduction at the outset of "Fordism", a combination of standardised flowline production, rigid division of labour and pyramid management, was to have a profound impact on factories throughout the UK. During the 1980s Dagenham has been at the forefront of "post-Fordism" – the restructuring which has entailed the the use of robots, computer-controlled machines, more flexible working practices, and team-working.

The plant's industrial significance is the source of its central role in British labour relations. Sid Harraway, who started work at Dagenham in 1940, recalls that the toilets were the hotbed for the two main illicit activities – smoking and trade unionism. The plant was unionised only after government intervention following a sit-down strike in 1944.

There followed a stream of strikes, short and long, over the regulation of work on the line. In 1962, Ford lost half an hour per man per year through strikes outside Dagenham, but 78 hours per man on the plant's assembly lines.

Leslie Blakeman, the labour relations manager in the 1950s and 1960s says: "The company faced a continuous challenge to its authority from one of the most highly organised shop steward movements in the country, a powerful and financially strong group whose objective was destructive conflict."

Harraway, who became a leading steward, started work with a four page contract. When he left in 1985, terms and conditions were governed by a blue book stretching to hundreds of pages, the outcome of the struggle to regulate work on the line.

The intensity of that struggle has generated Dagenham's wider economic significance in relation to output and pay. The speed up of the lines from the 1950s on pushed production from 400,000 vehicles a year in 1946 to 1.4m in 1955. It has since fallen back to about 400,000, but Dagenham is still a significant manufacturing site.

The conflict over the pay and effort bargain created the pressure which ripped through the Labour Government's incomes policy in 1978 and re-emerged last year with a two-week strike which nearly crippled the company's integrated European production system.

Dagenham's development has thus had tremendous political significance – not just for government policy on pay and industrial relations, but for Britain's political culture. For Dagenham's decline is a symbol of a departing social and economic order built on the production and consumption of mass manufacturing industry and a labour movement forged by the priorities of militant, male, manufacturing unionism.

Ron Todd, the TGWU general workers union's general secretary, started working for Ford in 1953: "I was living in a bedsitter with my wife and two kids, earning 9s 10d a week as a gas fitter. I joined Ford because it paid 15s 6d a week."

But Ford's attractions as an employer have dwindled. The company now trawls for workers from far afield. About 45 per cent of the manual workforce are ethnic minority workers, often drawn from depressed inner-London boroughs like Hackney and Brixton. Unemployment in the Chelmsford area is 3.4 per cent, in the Southend travel-to-work area it is 5.9 per cent. The company faces continual shortages of skilled workers.

By contrast, male unemployment in Genk, a town of 30,000, is 11.8 per cent. The town is wreathed in a polite, persistent drizzle of gloom.

Its skyline is dominated by the Catholic church, 1960s tower blocks and a slag heap standing out against the flat terrain. The twin winding towers of the Westlag colliery are idle, its red brick buildings deserted apart from a few dead plants and a personnel officer tidying up files on "the restructuring" which last year took away its 2,500 miners.

The pit's closure, the third in the area in as many years, will be followed by two more by 1992. About 4,000 more former miners will be looking for jobs. The 2,000 jobs which are supposed to arrive with the Sierra are much needed.

Ford's Sierra production line at Genk – a quiet, conservative, Catholic town with a reputation for skilled, industrious workers and flexible unions

The Ford plant, built close to the Continental Motorway network, began production in 1964 with a five-year union agreement which indexed wages to inflation. The agreement, which was meant to ensure "social peace", produced a series of strikes over shift payments and rest times.

According to Tony Castermans, a local official with the CMB metal workers' union, since 1968 industrial relations have become co-operative. The only recent disturbance was a three week strike by half a shift in 1983, over a reduction in the working week.

Genk and Dagenham are different plants. But they are Ford plants, designed in Detroit, sharing many common characteristics. As Stras Raymond, the president of the Genk shop stewards, says, with a sigh of resignation: "Wherever you are, life in a Ford car plant is an unending, daily struggle."

With a daily capacity for about 1,700 vehicles, Genk produces about 54 per cent more than Dagenham. But it has more than double the number of robots – 386 against 179. British stewards who have visited Genk say the plant is roomier, with simpler lines.

But both plants are increasingly using technology in a more sophisticated way. Genk's robots not only weld but install Transit windscreens, while Dagenham is introducing so-called "doors off" manufacturing for the new Fiesta which allows for more automation.

The average basic weekly wage at Genk is about £184 a week, for a 36 hour 20 minute week. At Dagenham average basic weekly pay is more than £227.35 for a 39 hour week.

The industrial relations systems at the two plants are at best distant relatives. Genk's 8,950 manual workers are represented by only 24 shop stewards, a ratio of 373 to 1. Dagenham's 11,000 manual workers have 200 stewards, a 55 to 1 ratio.

Most negotiations at Genk are channeled through just four senior stewards who meet managers once a month. At Dagenham, there are four joint works committees, with a combined membership of 64.

Changes to working practices at Genk evolve through regular discussion with the committee of four. At Dagenham change is agreed in periodic bursts through national pay negotiations, in the cumbersome, 70-strong national joint negotiating committee. Pay increases at Genk are negotiated separately from discussions over working practices, through a regional agreement between the unions and all the major manufacturers with plants in the area, including Phillips and Volvo.

Despite these different bargaining systems, both plants still have demarcation lines between skilled and unskilled, white collar and blue collar workers, although manual workers at Genk do not "clock-on". Both plants invest heavily in training, although Genk does so through a national, government-backed fund.

Genk, however, has moved faster than Dagenham towards flexible, higher quality production. Since 1978 production line workers have had responsibility for quality and simple maintenance, something Dagenham introduced in 1985. Workers at Genk first joined quality circles in 1979, but Dagenham stewards still oppose the company's Employee Involvement programme.

A report on the east London plant drawn up by Hayden's office in 1987 says: "We are not yet comparable with quality levels in continental plants. Despite successive campaigns on quality awareness, for a substantial number of employees an enduring commitment to 'building quality' has yet to be achieved."

Perhaps most significantly, in 1982 the Genk unions agreed to the introduction of temporary workers. There are 2,300 at the plant, working on short contracts to cover absence and overtime, and longer contracts for increases in production. The British unions have always rejected the introduction of temporary workers.

Yet all these differences do not prove that Dagenham is less efficient.

Ford told its British unions last year that continental European plants were between 40 and 65 per cent more productive. But the gap has narrowed significantly; for instance, it is marginal for engine production.

Last year the unions signed an agreement designed to maintain the momentum. It allowed widespread changes to working practices, based on teams of 10 to 12 led by shop-floor group leaders, with some interchangeability between skilled and unskilled workers.

Indeed, Hayden's 1987 document had this to say about Dagenham's prospects: "By 1992 our efficiency levels are planned to be virtually comparable with Genk – unit costs will still be worse: primarily a reflection of Genk's higher volume base."

So something has changed since the summer of 1987. One union theory is that the transfer is a grand act in the Dagenham tradition: the company is punishing the unions for the two-week strike last year.

But Steve Hart, the TGWU's local official at Dagenham, says high interest rates, the strength of the pound, and the cost of manufacturing in the south-east counted against the plant more than worker productivity, or industrial disputes. "One of Ford's problems is that line management is so old-fashioned it does not know how to use the flexibility allowed by the national agreements. There is a significant managerial productivity gap," he says.

It seems most likely the decision was the result of a review of strategy in the light of Ford's loss of market share in Europe's ballooning car market of 1987, and the threat of a shake-out of higher-cost capacity in the mid-1990s, with the arrival of the Japanese producers.

A crucial factor was probably that in its drive to cut costs, Ford will find it less difficult to introduce a 24-hour production system at Genk, by moving from two-shift working to a three-shift system. Three-shift working will allow more intensive use of capital, but also mean the Sierra will only have to be engineered for one plant.

Whatever their differences, the British and Belgian unions are at one in their suspicion of the company. The Belgians believe they will be lucky to get three quarters of the jobs promised. For the next two years the plant will be producing an ageing car, in a declining part of the European market, while Dagenham has just started producing the new Fiesta, aimed at the expanding small car market.

None the less the British are convinced Dagenham will lose many more than the 500 jobs the company predicts.

Hayden's report said that by 1992 manual employment at Dagenham would fall by 56 per cent, from 11,567 to 5,509. The paper was written on the assumption that Dagenham would continue to produce the Sierra. The unions believe that without it the Dagenham manual workforce, which was about 27,000 in 1979, could be cut to close to 4,000.

It would not mean the end of the plant. But it would spell the end of "Dagenham", the mighty manufacturing machine, which sucked in workers and pumped out cars – a name to be conjured with.

LEGAL COLUMN

Practising lawyers ignore theory at their peril

By A.H.Hermann, Legal Correspondent

A FITTER or a mechanic must be thoroughly familiar with the construction and working of the machines he is expected to assemble, repair or service, but he must be retrained every time he is moved to a different type of machine. Though he may well suggest important improvements in the machine with which he is familiar, he will, as a rule, be unable to devise completely new systems.

A graduated mechanical engineer has to meet different expectations. He will probably be less familiar with the details of operation and maintenance of particular machines, but should be able to propose conceptual changes, devise new systems and, above all, to familiarise himself quickly with entirely new machines.

The difference between the fitter and the graduated mechanical engineer is a result of different training. The one is taught to handle machines of a certain kind, most probably machines which are already in use or are about to be delivered. The graduated engineer has to be taught – excuse the word – the *theory* of machines.

Such different requirements on training seem to have never been applied in the UK to the different functions of a clerical worker or para-legal executive on the one hand, and of a lawyer on the other. For most English judges, barristers and solicitors, "theory" is a dirty word.

The casuistic nature of the common law, the detailed drafting of statutes, pretending that it is possible to foresee every eventuality, as well as their literal interpretation, reinforce the widely accepted view that law is a practical craft to be learnt not so much from books, as from observing the work of your elders and betters.

Hence, the "articled clerks" in solicitors' offices and the "pupils" in barristers' chambers. Hence, the remarkably short periods of academic study not always required, and the unbelievably short time after which an articled clerk or a pupil is admitted to final examinations.

Even without any reform of the legal profession, as things are now, lawyers need to be able to adjust to an ever widening range of laws and regulations and not only those made in the UK: European Community law and law of the other member states has to be understood by every business lawyer, at least to such an extent that the client can be warned about the possibility of problems.

Also, the intensification of the transatlantic contacts and the growing influence of US law through reciprocity requirements – for example in the field of intellectual property and trade law – call for lawyers with wider horizon and the ability to adjust quickly to legal thinking different from that common in the UK.

Such flexibility cannot be achieved without a more thorough and wider education in fundamentals than future practitioners obtain at present. The proposed reform of the profession, opening advocacy to a much wider circle of lawyers, makes this even more urgent.

The specialisation which forms another plank of Lord Mackay's green paper on the work and organisation of the legal profession, would also require that the relatively narrow specialism – which can be attained only by a thorough study and constant updating – be balanced by an overview of the entire field of the making and application of law.

One would have expected that a proposal for such a radical reform as that presented by Lord Mackay, would deal also adequately with the changed requirements on legal education and training.

This, however, is sadly lacking in the green paper. It suggests only the addition of the teaching of "evidence" to the six core subjects of the academic stage of legal education. These are: constitutional and administrative law, contract, tort, land law, trusts, and criminal law. It also suggests that the teaching of trusts and land law could be a composite subject.

Civil and criminal procedure appear at the vocational stage of training, but there is nothing to suggest that a command of the basic rules of family law, of legal persons, agency, company law, and financial law, is indispensable for the modern lawyer. Though these subjects, as well as the more specialised, concerning intellectual property, competition, conflicts of law, and international law are taught at some universities and polytechnics, it seems surprising that a lawyer should be able to qualify as an advocate without having any inkling of them.

I hesitate to add that, in my view, even more is necessary to be able to understand the making, interpretation and application of law in civil law countries which, in the guise of Community law, now penetrates the UK in ever increasing measure. May I suggest, *sotto voce*, that it would greatly expand the horizon of the English lawyer (and bring him up to the standard of the Scottish) if he was taught either the principles of the law of one of the civil law countries – France or Germany, for example – the basics of Roman law.

The green paper is equally modest in its proposals concerning the time required for obtaining professional qualification and a certificate of advocacy. It proposes a common vocational training for both branches of the profession and all the new specialisms which may crop up, but does not say that much more time would be required for obtaining the intermediate certificate for advocacy in lower courts.

The Government suggests that those who wish to practice in all courts in England and Wales should need to take part in an academic course, undertake a vocational course including training in advocacy, and some further practical training in advocacy before they *obtain a limited certificate*. After they have practised with a limited certificate in lower courts, they could obtain the full certificate.

This sounds very well until one comes to paragraph 5.19 of the green paper, where one can read: "The Government envisages that the practical stage of training is unlikely to last for less than six months". This limit seems to be much too low, and might prove a competitive disadvantage for young English advocates who would wish to practice on the European mainland, where practical training is usually five to seven years after graduation with a law degree from a university, which can never be obtained before completing a four-year course at the law faculty.

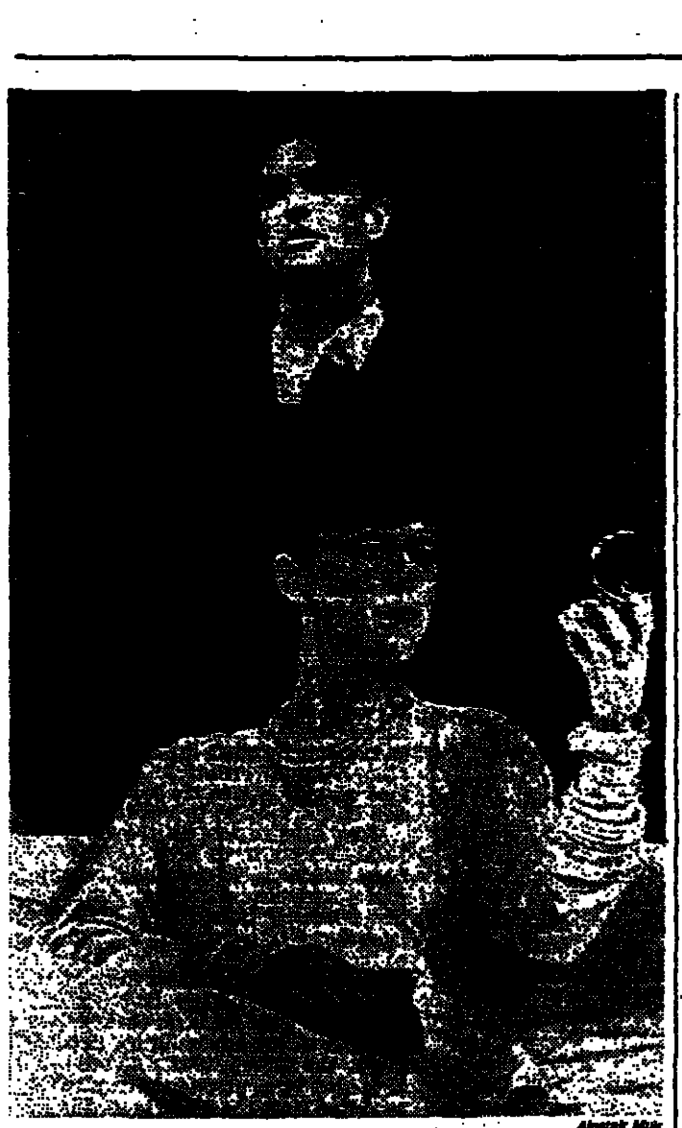
That means it takes 10 years at least before a continental attorney gains full rights of appearing unsupervised in the courts. Moreover, in some countries, including France and Germany, there are regional limitations on advocates which only recently have been relaxed.

The green paper proposals would bring the UK legal scene closer to that of mainland Europe by opening advocacy and judicial careers to academic lawyers, if properly qualified.

This would be another step in the direction to which Lord Goff, one of the Lords of Appeal in Ordinary, pointed when he said that the law must be developed by judges and jurists acting in partnership (1). To which Professor P.S. Atiyah added in concluding his series of Hamlyn Lectures (2), that while the judges were engaged in the often very pragmatic business of deciding cases, it was the academic who must be primarily responsible for the part played by reason and theory in the law. From which it follows that the practicing lawyer can ignore the theory only at his peril.

(1) In his Maccabean Lecture, "The Search for Principle", (1983) LXIX Proc.Br.Acad.,169.

(2) P.S. Atiyah, Pragmatism and Theory in English Law, Stevens 1987.



Alastair Muir

Maria Aitken and Rupert Everett

Das Rheingold

THEATRE ROYAL, GLASGOW

At long last Scottish Opera are re-embarked on *The Ring* – the first (and last) cycle was last given more than two decades ago, and its disappearance seemed to mark the start of the company's period in the shadows. The new *Rheingold*, first shown on Friday, is done with brilliance, wit, and freshness of spirit; it gives surely the clearest signal yet that the new era is under way. From first note to last the production by Richard Jones, the conducting of John Mauceri (the company's musical director), and the singing of a finely balanced cast persuade one that launching upon the great adventure has been a pleasure and an excitement for all concerned.

Jones's production, designed by Nigel Lowery, is a delight to the eyes and to all the other Wagnerian senses. It finds new ways of telling the old story without conducting a simultaneous lecture on the meaning of that story. The style is wholly individual – anyone who has encountered previous opera productions by this young team (such as Opera 80's *Rake's Progress* or Scottish Opera's recent *Così fan tutte*) may recognise particular theatrical quirks, fingerprints, touches of deliciously offbeat humour, a style altogether harder to describe than to enjoy and admire.

The visual language uses bright colours – poster-tones sparingly shadowed – and cuts the locations into sharp-edged yet semi-abstract, semi-surreal shapes. A door opens on the Rhine stage left; wall and floor apertures constantly reveal faces or arms (the presentation of the Nibelungs is marvellously economical); a neon-lit inner-stage arch is set aslant (and slides apart to reveal an extraordinary vision of Erda). The production employs a small amount of stage machinery with maximum ingenuity: in the best sense it looks as though it all cost little (probably less than a single laser beam in the new *Bayreuth Ring*).

It all adds up. The purpose, it seems to me, has been to tell the story clearly, simply, remarkably faithfully (when did you last see a *Rheingold* where the curtain went up only where Wagner wanted it to?); and to do so in a way that renders the myth newly magical and newly intelligible.

The Gods in their silver lamé suits, each with a "motto" yellow sash, and the cocktail-dressed Rhinemaidens with their swimming ballet are treated humorously but not guyed in the manner that Chéreau, Friedrich et al have made fashionable; motivations are not cut to size by procrustean theory. Wotan, in the majestic person of Willard White, is not a gangster or capitalist Big Boss. Likewise, one gets to know Fricka, Loge (a mesmerically comic Chaplin-figure with a touch of poetic melancholy), Freia (who assumes new and convincing importance) as characters, not cartoon-figures. The combination of fantastical background and freshly-considered foreground is ideally suited to the theatre, cast, and company as a whole.

Indeed, in the intimate surroundings of this beautiful theatre the first phase of a genuinely intimate *Ring*, one that has discovered its own carefully worked-out system of Wagnerian weights and measures, its own sensitivity to Wagnerian values, is achieved with triumphant success. Mr Mauceri is, on this showing, its ideal conductor. The playing is warm, clear, dappled with both sparkle and darker tints. Balance between voices and instruments is unforced: one hears every line, every word.

The pace is geared to the production, which means that the performance moves forward fast, but that the conductor's grip on the overall design is unerring, and that the listener's pleasure in the lyricism of the music is newminted.

There are too many splendid performances and not enough space to do them justice – this is a *Rheingold* where one wants to mention almost everyone. Unquestionably first in line is Willard White in his long-awaited first approach to Wotan, not yet completely to scale but in voice, figure, and personal magnetism already a hugely compelling focus for the whole performance. There is no doubt that Mr White was born to be Wotan. Nicholas Folwell, the WNO's Alberich, is even more rounded and powerful, hitting home in phrase after phrase; Felicity Palmer (Fricka) and Bonaventura Bottone (Loge), both newcomers to *The Ring*, are superbly sharp, elegant, and musical.

No doubt Friday's small flaws and falters will be put right during the run. In all the important matters Scottish Opera have scored a bull's-eye.

Max Loppert

Willard White (front) and Bonaventura Bottone

The Vortex

GARRICK THEATRE

Exactly one year after unveiling at the Glasgow Citizens' his astonishing revival of Noël Coward's first performed play (in 1924), Philip Prowse, directing and designing, recreates the production with the same cast, settings and stunningly beautiful costumes in the West End.

The Vortex is a young man's play, with all the strengths and weaknesses of fresh unbridled talent drawing attention to itself. Coward revelled at the time in the career-launching publicity that surrounded his treatment of Nicky Lancaster's drug-taking and Oedipal mother fixation.

Rupert Everett denies where possible every Cowardian lilt and cadence in this major piece of creative rehabilitation. The production rearranges the predictable Coward rhythms into valid new patterns while miraculously preserving the heart of the matter and indeed investing it with extra weight and poignancy.

Everett and Maria Aitken, giving the best performance of her career to date, redeem the jejune excesses of the third act by playing it like the closet scene in *Hamlet*.

There indeed is the rub. Everett's Nicky is not a pampered socialite, but a rank outsider who, after a year's musical training in Paris, has returned to Florence's social whirl with a mission. He is palpably stoned, remote, washed up, given to sudden sweats and anxieties. He will not cast his knighted colour off, and dismisses a broken engagement to Bunty Mainwaring (Yolanda Vazquez, delightful) with a *shrug* as he pursues the truth. He wants his mother to tell him she has taken lovers.

This is not an imposition on the play. But the Prowse method yields a most remarkable expansion of *it*. There are spoilt and privileged young men who mess up their lives with drugs. Coward is quite moral about this, and so too is Prowse. At the end of the second act country dance, Nicky is left alone at the piano. Coward indicates in the text that his hands should drop from the keys. Everett, alone at last, rolls up his sleeve and tightens his upper arm with a black band.

The production re-invents the shock value of the play by adapting it to contemporary knowledge about drugs. Everett's performance is a clinical study in the pathology of addiction. He snaps and slurs in a way Coward would never have contemplated.

The effect is to heighten still further the brittle cover of conversation among Florence's sycophantic set. Her latest lover, Tom Veryan (Martyn Stanbridge), describes that sort of chap as "up in the air, effeminate."

Miss Aitken injects more familiar swooping rhythms into the text, but is always playing the tragic clown behind the mask. She has taken the third act self-immolation even further than at Glasgow, presenting a torn and tawdry mannequin of lank hair, running mascara and desperate self-defensive lunges.

There is notable support from Fidelis Morgan as a harassed singer, Anne Lambton as the rock-like confidante and Stephen MacDonald as the almost unbearably touching defeated husband of Florence.

Gerry Jenkinson lights a design that transforms brilliantly from an all-white Syrie Maugham showcase for these chattering hothouse plants (standing lamps, gladioli, sofas and gauze curtains) to a satinate bedroom where three tilting mirrors bear down on the horizontal mother and son with a tragic and microscopic intensity. The evening is an unadulterated triumph.

Michael Coveney

Detail reaps rewards in the harvest of conservation

Gerald Cadogan reports on the 1988 Europa Nostra awards

THE ANNUAL awards of Europa Nostra (EN), the principal European conservation body, provide the best opportunity to see how conservation is faring. Sponsored by American Express, eight silver medals and 37 diplomas of merit were awarded this week for schemes from 17 countries. The new crop is encouraging; and many entries that did not win this year would have done in earlier competitions in the 10-year-old scheme.

What has changed? Not the energy – that is always needed, to raise money, cope with planners and councils and clear brambles. Nor the imagination – you must have that to see what can be done with the buildings. But two new themes do emerge. There is more demand now to get all details right, which attention to quality shows respect for the standards of earlier craftsmen in a post modernist reaction to mass production.

The other change is deeper. Every European now is alert to the social and cultural damage demolition can cause, and the displacement of the spirit as buildings we have grown up with crumble and fall, but the lessons of the conservation movement are so widespread that almost all of us have lost faith in brave new worlds when barbicans and tower blocks are tackily adorned with too many materials which cannot mask their essential deadness.

Yet inner cities must thrive. This year the Merchant City scheme in Glasgow and the Butchers' Hall scheme in Antwerp are two inner city revival projects that most deservedly won medals. Diplomas went to Gouda (Holland), Helsinki, Hereford and Tournai (Belgium) for similar schemes, and a medal to Utrecht (Holland) for renovating a group of 5 inner city churches, medieval and later, for places of worship, pastoral offices and a restaurant, and for the arts.

Medals also went to Antwerp for the inner city *rehabilitation* of the butchers' Hall area, and to Glasgow's Merchant City rehabilitation;the huge 147m long Bell Street warehouse is *Scotland's largest single conversion* (it is now flats).

That the past still shapes our lives is clearest when a monument symbolises a city – Pisa's Leaning Tower, Paris's Eiffel Tower, London's Eros (or is it *Trafalgar Square?*). Thessaloniki's medal winning symbol is the White Tower on the seafront, cleaned and repaired to make a museum of the city's history.

Large old buildings are a special headache. What is to be done with the detritus of the industrial revolution, or with religious buildings that have lost their rationale? The remedies are wide. The Military Cloth Factory at, Usserod (Denmark), for example, has been restored as an R&D computer centre. Ironworks at Steyr (Austria) becomes a museum of labour, and the Ravensberg linen mill at Bielefeld (Germany) a centre for adult education with museums and kindergarten: this was a pilot project by the Federal government in adapting old factories. The *mill, arranged in 1856* on English lines and with iron beams imported from England, must be one of the first examples of German productivity *overtaking British*.

The great Abbaye aux Dames at Caen, founded by Matilda, wife of William the Conqueror, ceased to be a convent during the French Revolution and became a hospital. *Quite dilapidated* in 1975, *it has* been restored as the Departmental Council chambers. The 1620 Hôtel de Croisilles in the Marais, Paris, has been turned into the *library of the Heritage* Division of the Ministry of Culture. And Dublin is enjoying the spectacular restoration of perhaps its best 18th century building, Gandon's Customs House, which, like the Parthenon, suffered badly from rust destroying the stonework.

The Tailors' Hall in Dublin, *society's main gathering place* in the early 18th century, was a sorry mess till the Irish National Trust did it up. Other successful smaller restorations *include the 1584-1632* Haus Backs, a rich timbered and decorated town house in Bad Salzuflen (Germany), which won a medal. Diplomas go to houses in *Limassol* and *Nicosia* (Cyprus), Sonderho (Denmark) and the mountain village of Papigo in Epirus (Greece).

Turkey's first private *museum*, *The Sadberk* Hanim in a 1910 mansion on the Bosphorus; the church of St Sornin (Charente Maritime, France); Hinxton water mill near Cambridge; Richmond House in Whitehall; the 18th century town *hall of Farsund* (Norway) destroyed in World War II; a toll house at Gorinchem (Holland); and the Baroque Hesperidengarten in Nuremberg *all received diplomas*.

Awards in the countryside went to large 18th century houses: Castle Coole in Enniskillen, James Wyatt's *masterpiece* and a treasure of the National Trust and attacked by rust; English Heritage's Marble Hill House at Twickenham, the Palladian villa *built for George* II's mistress Henrietta Howard; and a medal for the astonishingly beautiful Clemenswerth (Germany), a hunting lodge set *in the centre of a star* with 8 pavilions and radiating avenues.

Two unusual awards was the medal for the preservation of *the ruined* St Gwennol Abbey in Brittany with the sole purpose of making a good monument, and the diploma for the resurrection of an 1822 Neo-classical synagogue at Apostag (Hungary) as a community centre. This village had had a Jewish community since about 1850, but of 150 Jews deported in 1944, only six came back, who then left and the synagogue was abandoned: redundant religious buildings are not the monopoly of Christians.

EN is not concerned exclusively with buildings. This *year's exception was the Ghadira* bird reserve (Malta), a brackish wetland now made into a proper wilderness on a main migratory route.

Finally, the fun side of conservation. I am delighted at the diploma for the 1895 Ma Retraite at Zeist (Holland), a Dutch beerage post-Villa *Borghese* and *post-Loire* châteaux confection that would look well in Nice. Another delight is the Wittenbergplatz Underground station in Berlin, an imposing richly detailed Neoclassical edifice of 1911-13 that recalls Baltimore station, my favourite in the US. Thank goodness Berlin is closer.

And the rescue of the *medieval* Tuthill Manor, that lurked long forgotten in the derelict farm they bought for £1500 in 1958, must have given many *moments of fun and excitement*. For vision and drive and 27 years work by the owners themselves, and EN medal is the right award.

Dance Advance

LILIAN BAYLIS THEATRE

The Lilian Baylis Theatre, Sadler's Wells' annexe, is a good small space for chamber dance. It has a rather barren air, and the seats win no prize from me for comfort, but the performance area – flat, in front of rows of steeply banked seating – is clear, and suits the sort of evening that Dance Advance proposed on Thursday.

Two new works were on view: the first is in effect a trio of short scenes by the company's choreographers, Jennifer Jackson, Susan Crow, Michael Batchelor; the other a creation by Toer van Schaijk.

Dance Advance subtitles itself "New moves in classical ballet", and I wish that the description could be true of the evening's offerings. Alas, there is too little evidence of real novelty, and equally little of classical dancing in the best sense of the word.

The group creation, *Metallix*, purports to be thematic about metal, but its choreographic components are unrelated, and sit oddly each with the other. Three scores – by Stephen Montague, Ian Gardiner, Orlando Gough – are interesting, and very well played by Quorum, the company's resident musicians.

Of the dance material, I was held only by Michael Batchelor's duet for himself and Moana Nepia, in which the two men exorcised various tensions and traumas in acrobatic but expressive movement.

Toer van Schaijk's *Shrugs and Signs* lives up to its title, and the six members of the troupe battle it out to some Schoenberg piano music and Berg's four pieces for clarinet and piano.

But the choreography picks away at emotions, aggressions, in predictable fashion – the entire evening has a disturbing air of therapy about it, with dance as the means of release rather than of poetic truth or formal beauty – and the rewards are few.

Chief among them is the dancing of Mr Batchelor and of Stephen Sheriff. Both artists must be numbered among the most gifted classical performers of their generation: would that their company provided them with more opportunity to display their gifts at their brightest and best.

I wish I felt that Dance Advance, whose aims and personnel I respect, had sounder choreographic taste. More classical rigour and less angst might help to make the ensemble live up to its name.

Clement Crisp

Still more Schoenberg

SOUTH BANK

The 'Reluctant Revolutionary' celebrations culminated at the weekend – twice, since Saturday's final concert was repeated on Sunday – in a convincing blaze of glory, that being how Schoenberg's *Gurrelieder* conclude. The main work was prefaced on Saturday by a short, effective Fanfare on motifs from it, which the composer devised for a Stokowski Hollywood Bowl concert in 1945. It made an apt and obvious parallel: opera audiences at Bayreuth are summoned to each act by just such fanfares, and the *Gurrelieder* are far and away Schoenberg's most Wagnerian product.

Conducted by Timothy Bond in the Queen Elizabeth Hall, the excellent Royal College ensemble who delivered the Fanfare also offered the rare Theme and Variations, op. 43, in the original 1943 version for large wind band. Nobody has ever thought that the piece adds even one laurel to Schoenberg's brow: highly competent and highly chromatic (but not twelve-note), it remains a sober pedagogical exercise, easy to forget – but welcome for this festival, especially in an account so well modulated and confidently paced.

Though Schoenberg began composing the huge 'Songs of Gurre' in 1900, the scoring was finished only in 1911. By then he had put the Wagnerian ethos behind him, and was deep into atonal exploration. Evidently his affection for the work was undimmed by its 'dated' features, for he gave it the most opulent 19th-century dress. The forces that Simon Rattle had to conduct – a greatly expanded City of Birmingham Symphony, a half-dozen soloists, the London Symphony Chorus *and* the Richard Hickox Singers – made a mighty array in the Festival Hall, and a tremendous sound.

Rattle can now measure the temperature of a late-Romantic score with accurate insight; one could not have wanted a more sumptuous and poignant *unfolding of the love-music of* Part 1. The tragic lovers were John Mitchinson in his best *Heldentenor* voice, and the soprano Sharon Sweet, a touch backward though sympathetic. Alfreda Hodgson made a mournfully lovely Wood Dove. The later parts of the epic were graced by strong, alert contributions from Ian Caley and John Rawnsley, and above all from the 80-year-old Hans Hotter, majestically tall and straight-backed as ever, whose ripe narration as the Speaker brought back the happiest memories of his imperishable Wotan of the '50s and '60s. It was a triumphant evening; whether it would convert doubters to better appreciation of later Schoenberg is another matter, but the whole festival has done memorable service to the cause. Observer, Page 12

David Murray

ARTS GUIDE

January 27-February 2

MUSIC

London

Music from the Flames. Third and fourth concerts in series by the Brodsky String Quartet, featuring the complete Shostakovich quartets. Queen Elizabeth Hall (Mon, Wed) (928 8800)
Cécile Ousset (piano). Mozart, Beethoven, Fauré, Ravel. Royal Naval College Chapel, Grenwich (Wed) (317 8687)

Paris

Lucia Valentini-Terrani (mezzo-soprano) with the Ensemble Orchestral de Paris. Chatelet (Mon) (40 28 28 28).
Ensemble Intercontemporain conducted by Hans Zender, with Elizabeth Laurence (mezzo-soprano), *Alain Neveux* (piano). Schnebel, Hidalgo, Zender, Reger. Théâtre Renaud-Barrault (Mon) (42 56 08 80).
Trio Tchaikovsky. Schubert, Rachmaninov. Salle Gaveau (Tue) (45 63 20 30).
Marc Laforet (piano). Schubert, Beethoven, Chopin. Théâtre des Champs Elysées (Wed) (47 20 36 37).
Kuijken Brothers *with François* Fernandez. Mozart's quatuors with flute. Théâtre de la Ville (Thur 6.30 pm) (42 74 22 77).
Orchestre de Paris conducted by Daniel Barenboim; Orchestre de Paris choir conducted by Arthur Oldham. Berlioz's The Damnation of Faust. Salle Pleyel (Thur) (45 63 07 96).
Orchestre National de France *conducted by Rudolf Barshai*, with Franco Gulli (violin). Stravinsky, Mozart, Chostakovitch. Theatre des Champs Elysées (Thur) (47 20 36 37).

Vienna

Wiener Kammerorchester conducted by Gunther Pichler. Webern, Haydn, Schbert. Konzerthaus (Tues).
Clemencic Concert conducted by René Clemencic. Musikverein (Mon).
Atlantis Trio Wien. Erod, Dvorak. Austrian Radio and Television Centre (Tues).

Munich

Munich Philharmonic Orchestra conducted by Sergiu Celibidache. Bach, Shostakovitch. Philharmonie im Gasteig (Thurs).

Berlin

Berlin Philharmonic Orchestra with Katia and Marielle Labeque (piano), conducted by Semyon Bychkov. Schnittke, Mozart and Tchaikovsky. Berlin Philharmonie (Tues, Wed).

Rome

Aleksandr Lazarev conducting Chaikovsky's Suite No. 3 in G Major and Rachmaninov's Aleko, with Galina Kalinina (soprano), Tamara Sinjavkaja (mezzo-soprano), *Aleksandr Fedin* (tenor) and Evgenij Nesterenko (bass) (Mon, Tue). Auditorium in Via della Conciliazione (654 1044).
Massimo Quarta (violin), with Marianna Brissacchi (piano). Mozart, Schumann, Ravel and Paganini. Oratorio del Gonfalone (Vicolo della Scimia 1/br) (Thur) (box office 687 5952).

Milan

Seiji Ozawa conducts Beethoven's 4th Symphony and Bela Bartok. Teatro alla Scala (Mon) (80 91 26).

Amsterdam

Royal Concertgebouw Orchestra conducted by Claus Peter Flor, with Natalia Gutman ('cello). Prokofiev, Schnittke. Concertgebouw (Thur). (718 345).

Rotterdam

State Chamber Orchestra of the Soviet Union conducted by Victor Tretyakov. Vivaldi, Rossini, Shostakovich, Haydn. Doelen (Mon).

New York

New York Philharmonic conducted by Hugh Wolff, with Peter Serkin (piano). Bernstein, Ravel, Berlioz. Avery Fisher Hall, Lincoln Center (Wed, Thur) (799 9595)
Yo Yo Ma 'cello recital with Emmanuel Ax (piano). Stravinsky, Brahms, Chopin. Carnegie Hall (Tue) (247 7800).
Andrew Rangell piano recital. Beethoven programme. Kaufmann Hall (Wed) (427 6000).
Juilliard Concerts. The 60s Revisited features works performed by Juilliard students illustrating the theme 'A Decade of Ferment,' as demonstrated by composers Stefan Wolpe, Henry Cowell, Milton Babbitt, John Cage, George Crumb, Lou Harrison and others. Free but tickets required. Juilliard Theatre, Lincoln Center (Wed, Thur) (799 5000).
Orchestre Symphonique de Montreal conducted by Charles Dutoit, with Radu Lupu (piano). Debussy, Beethoven, Elgar. Carnegie Hall (Thur) (247 7800).
Carol Webber soprano recital with Philip Highfall (piano). Copland, Prokofiev, Poulenc, Granados. Kaufmann Hall (Thur) (427 6000).

Washington

Philadelphia Orchestra conducted by Riccardo Muti, with Bruno Canino and Antonio Ballista (duo pianos). Mozart, Bartok, Stravinsky, Ravel. Kennedy Center Concert Hall (Mon) (254 3770).

Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti, with Jay Friedman (trombone). *Zwilich*, Shostakovich. Orchestra Hall (Tue) (435 6666)

Tokyo

Yomiuri Nippon Symphony Orchestra conducted by Miklos Erdelyi. Rachmaninov, Tchaikovsky. Suntory Hall (Tues) (270 6191).
Shinsei Nihon Symphony Orchestra conducted by Kazuo Yamada. Kreisler, Chopin, Wagner, Dvorak. Suntory Hall (Wed) (505 1010).
Amsterdam Bach Soloists. Bach. Tokyo Cathedral (Wed); Kan'i Hoken Hall, Gotanda (Thurs) (795 4488).

1988 Olivier Awards

The Old Vic outstripped both the National Theatre and the RSC at last night's Society of West End Theatre Awards ceremony as Jonathan Miller's 1988 season collected five of the 17 Olivier Awards.

Miller's revival of *Candide was adjudged Musical of the* Year, Patricia Routledge Actress of the Year in a Musical, Alex Jennings in *Too Clever By Half* the Comedy Performance of the Year, and that play's director, Richard Jones, Most Promising Newcomer. Designer Richard Hudson was honoured for his work on the whole Old Vic season.

A Special Award was presented by the Princess of Wales to Sir Alec Guinness for his career on the London stage, and winners in the opera and dance categories were Leontina Vaduva for *Manon* at Covent Garden, and the Kirov Ballet for their London season. The Observer Award in memory of Kenneth Tynan went to the *Maly* Theatre *of* Leningrad whose *Stars in the Morning Sky* was seen at the Glasgow Mayfest and Riverside Studios.

Deborah Warner's RSC *revival of Titus Andronicus* won awards for herself and leading actor Brian Cox, and Harriet Walter was the third RSC winner for performances in *Twelfth Night* and *Three Sisters*.

M.C.

FINANCIAL TIMES
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Monday January 30 1989

Nationalism in TV sets

THE NEW information and communications technologies are often portrayed as prime movers in a process of global economic integration which will ultimately render national frontiers obsolete. Yet they have done little so far to tame economic nationalism: if anything, it is enjoying a resurgence, fuelled by intensified worldwide rivalry to control key technologies.

The latest battleground is high-definition television (HDTV), an innovation potentially as important as colour television and video recorders. HDTV offers impressive picture quality and could eventually supplant conventional television. The advantages of unifying the world market by agreeing a single international standard should be obvious.

However, Japan and the European Community are fiercely championing their own standards, while the US has declared its intention to develop yet another approach. Hence the market risks being fragmented by the technical incompatibility which has long bedevilled colour television broadcasting. These differences owe much to tactical manoeuvring by rival manufacturers, abetted by government authorities, to try to lock each other out of the market. The interests of consumers have been of secondary importance.

Going it alone

HDTV was invented in Japan under the auspices of NHK, the state broadcasting authority. Japan might have secured early agreement on a world standard if NHK had invited international participation in its research programme. Instead, the Japanese chose to go it alone and set out to sew up much of the world market. European equipment manufacturers, which had adopted a somewhat leisurely attitude to HDTV, hastily persuaded the EC to back a standard of their own. European HDTV has an advantage over the Japanese approach in that it could evolve out of conventional broadcasting systems and would not require large investment in totally new equipment.

In the US 17 electronics companies are proposing a national initiative in the form of a government-backed consortium to develop, make and sell HDTV equipment and components. They insist HDTV is a strategic technology which could not only get the US back into the consumer electronics business but is vital to computing and national defence. The most likely source of government finance is the Pentagon, which is already funding Sematech, a collaborative venture in advanced semiconductor manufacturing.

Poor recipe

Some in the electronics industry dismiss the HDTV plan as quixotic. In any case, government-sponsored collusion by major manufacturers, cloaked in the mantle of national security, seems a poor recipe for reviving US competitiveness. While defence spending undoubtedly helped the early development of the American computer industry, its value in recent years is much more dubious; it may have blunted, rather than sharpened, industry's commercial instincts. The damage would be compounded if the US were also to shelter new technologies with "infant industry" trade protection, as some supporters of the HDTV initiative want.

Many of the weaknesses of US – and European – high-technology industries reflect the cumulative impact of poor management and misguided policies. Few of them seem susceptible to a quick fix. Governments need to concentrate on improving the climate for innovation. This calls for policies which encourage investment in human capital, efficient production and rapid technology diffusion, while ensuring that industries are kept exposed to the stimulus of competition.

The West still has much to learn in this respect from Japan, which has achieved a successful balance between public policy and private sector initiative. The HDTV experience suggests that all concerned need to learn another lesson, too. The purpose of standards should be to ensure that quality products and services are delivered to consumers at the lowest possible price in an open, competitive market. That should be achieved by international consultation and agreement and not left to the machinations of rival producers intent on using government support to advance their commercial interests.

Italy's halting leadership

WHEN Mr Ciriaco De Mita took over as Italian Prime Minister last April, the first authoritative Christian Democrat in that position since 1981, it was obviously going to be an important test of his own leadership capacities and those of the Christian Democratic Party which he had spent six years "renewing" as party leader. Nine months later neither is passing muster.

For much of the post-war period the party has performed a signal service for Italy, piloting the country through an extraordinarily rapid period of economic and social development. Covering everything from the non-Communist left to the conservative right, it ran very much with the grain of Italian culture, in its respect for regional and provincial variations, and in its preference that power be devolved downwards and exercised consensually. It also embodied the weaknesses of that culture, including a reverence for power rather than policy objectives, an excessively casual attitude towards corruption and the placing of group interests over national ones.

National priorities

When he became Prime Minister, Mr De Mita appeared to recognise that certain national domestic interests had to be given an overwhelming priority if Italy was to be in any kind of condition to face the challenges of Europe after 1992. At the top of the agenda were reducing the public debt, institutional reforms and a substantial improvement in the quality of public services.

On the evidence so far, progress on all fronts has been frustrated because the Government insists on pursuing an unattainably broad political consensus. It does so because it cannot or will not confront many of its own vested interests. The party is unable to mobilise its forces behind a thorough overhaul of the spending mechanisms in Italy and behind cuts in health and welfare programmes and higher taxes.

Institutional reform threatens to neuter party barons skilled in manipulating Italy's "difficult democracy" to the advantage of themselves and their groups. Better public services means slicing off the dead hand of trade union occupation of the bureaucracy and cutting jobs.

The perfect example of the ineffectiveness of this approach was demonstrated last week in the Government's agreement with the unions on tax reform. Having failed to produce a 1989 budget which comes even within hailing distance of the medium-term plan for controlling public debt, Mr De Mita and his colleagues struck a deal which will index direct tax rates in line with inflation.

Spurious consensus

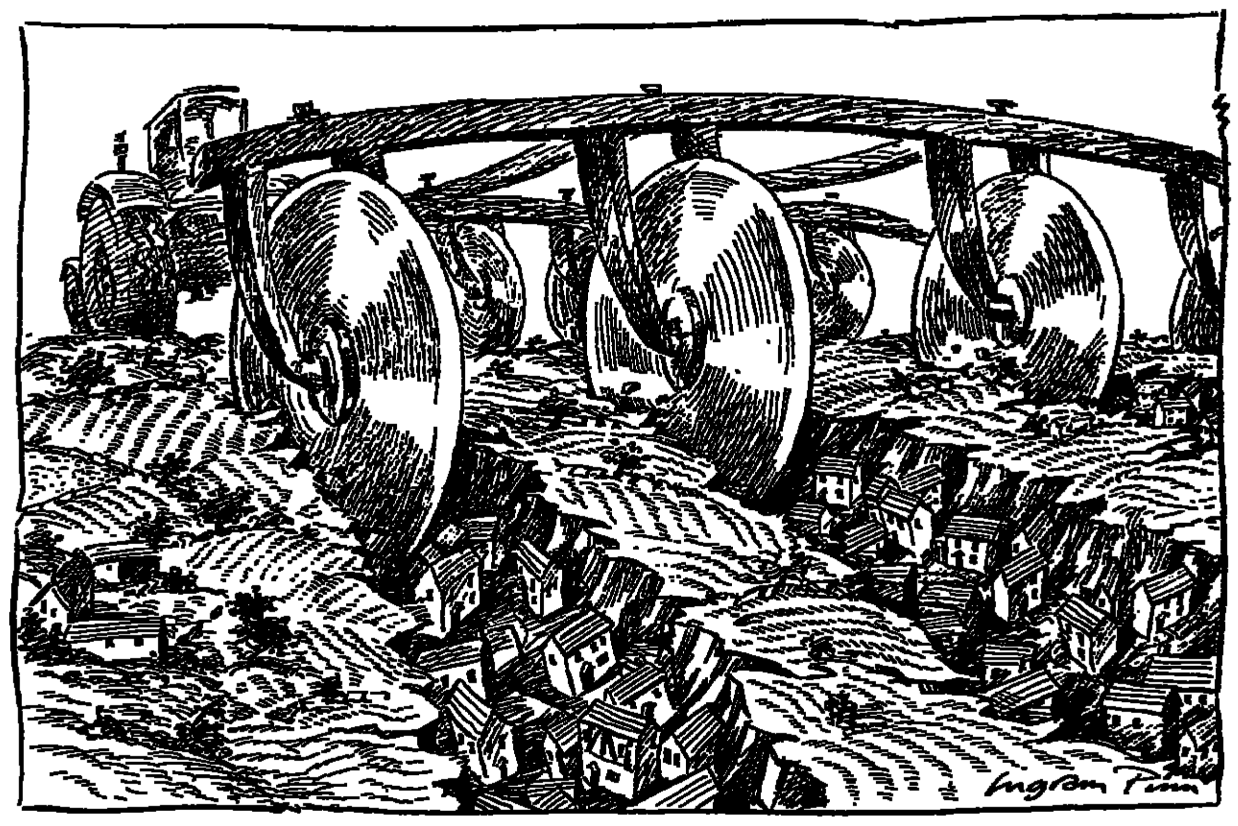
This was an absurd price to pay for the cancellation of a four-hour general strike, but in keeping with the Christian Democrat instinct to search for an often spurious consensus which, in this case, carries no promise of union backing for public sector spending reforms. The fact that last week's agreement had the full backing of the party's main coalition partner, Mr Bettino Craxi's Socialists, merely reflects the extent to which the latter now resemble the Christian Democrats.

Running Italy has never been easy, but the gap between the requirement for firm government and the ability of the Christian Democrat-dominated coalitions to supply it has never been wider. The outlook is that reforms will not be seriously addressed until the country is gripped by another severe crisis. This could take the form of rising inflation and a sinking of investor confidence.

It would be much easier to face the problems now while the real economy is still healthy and Italians are enjoying substantial increases in personal wealth. Sadly, present Italian political arrangements do not seem able to deliver, to the point that the Christian Democratic Party now seems doubtfully qualified to maintain the dominant political position it has exercised for the last 40 years.

Bridget Bloom on UK farming in advance of today's agricultural review

Brave new world on the land



Britain's farmers are feeling embattled and with good reason. The recent egg crisis apart, over the past few years their real incomes have declined and their costs have risen as the Government strives, with its partners in the European Community, to cut the cost of agricultural subsidies. Farmers are under fire, too, from environmentalists. Not only are they fearful of new restrictions on fertilisers and pesticides, which affect yields and so income. The more thoughtful worry that in the public mind, trust of farmers is rapidly giving way to suspicion.

These concerns are real and, in general, soundly based. Inevitably, however, they are only part of the picture. For British farming – along with agriculture in much of the rest of the EC – is in the throes of one of the most profound changes in its history. So recent is the revolution that only its outline can yet be traced. Its content, and maybe even its general direction could still, for example, be altered by a succession of droughts in major grain exporting countries, which could change demand for food across the globe.

Yet as things stand now, what is happening in farming in Britain seems set not only to change the pattern of farming and of land ownership, but also to influence deeply the rural economy as a whole.

If the revolution proceeds on its present course, a scenario for 2001 might go something like this:

● Most of Britain's food will be produced by many fewer farmers, on much bigger farms. These will be increasingly involved in integrated farming, food processing and marketing operations, enjoying far fewer subsidies than the EC's common agricultural policy than today.

● At the other end of the scale will be a wide variety of smaller holdings. Many will be "dog and stick" farms in the hills of Wales or Scotland, supported financially for environmental or social reasons. Others may be sporting estates. In between will be family farms catering, perhaps, for the growing demand for organic or other "niche" foods.

But many more, in lowland England at least, will consist of a few acres and a former farm-house, cottage or barn. These will be owned by a wide range of new people who will have moved to the country because of improving transport or because work, often based on the new information technologies, is increasingly available there.

There is a sense, of course, in which this is not new: farms have been getting bigger and rich commuters have been buying into the lush pastures of the south-east for at least a generation. What is new is the extent of this change in rural Britain and its impact on a farming community hitherto used to high levels of protection and support.

Farms have been getting bigger, with numbers of farmers declining, for much of this century, but the trend is exacerbated by reforms of the common agricultural policy, which by the early 1980s was producing unaffordable food mountains. In an effort to control production, prices to farmers have been progressively cut and farm income has fallen – Britain's National Farmers Union says incomes are the lowest in real terms since the Second World War.

The central question for farmers and governments alike today is how to adjust to the fact that there is land to spare throughout the EC as a result of the twin pressures of CAP reform and the revolution in farming techniques which has brought higher yields. Britain's Countryside Commission, the official "watchdog" for the countryside, calculates that nearly a quarter of present day farming land will not be needed for food production by the early 1990s.

Across the Community, solutions vary. France, for example, with twice the agricultural land area of Britain but a similar number of people, faces depopulation in many of its more remote central and western regions. It wants measures primarily to address that problem.

Britain's problem – outside the Scottish Highlands, parts of mid-Wales and perhaps Cornwall – seems to be the reverse: how to square the needs of food production with the potential explosion of populations who want to work and live in the countryside, brought there from the towns by comparatively cheaper housing, a better environment and the increasing possibility of non-farming related work.

Estimates suggest an increase of some 10 per cent in the population of many of the rural counties stretching from Devon in the south-west through the Midlands to Yorkshire in the north, at a time when the population of Britain as a whole has been static.

The engines of this growth have included the arrival of the computer and the fax machine, which have made possible the establishment of a wide range of new country-based industries, able to benefit from the shake-out in agricultural employment to find a stable work-force. Improving transport systems, especially motorways, have extended the possibilities of commuting from country homes, while the increasing affluence of property-owning pensioners has meant many more people retiring to the country.

The Thatcher Government's policy towards these new rural developments involves two clear strands. First, the Government wants to encourage the non-farming revolution in the countryside, arguing that it provides sensible alternatives for using spare land and providing new rural jobs. Second, as Mr John MacGregor, the Minister of Agriculture, made clear to the Oxford farming conference earlier this month, those farmers who remain on the land will be expected to become much more market-oriented. If there is no realistic market for their goods, they must find other goods to produce or get out. Mr MacGregor drew parallels with the demise of the village shopkeeper, as well as with the painful adjustment to the market realities of companies like ICI.

Mr MacGregor accepts that farms will get bigger. Neither he nor his colleague Mr Nicholas Ridley, the

The central question for Community farmers and governments is how to adjust to the fact that there is land to spare

Environment Secretary, sees a complete end to subsidies: these will continue to go to poorer, mountainous areas, while increasing payments may be made to ensure environmentally friendly farming. But as Mr Ridley insisted to another farming audience: change for the majority of farmers is necessary and inevitable.

How are farmers adapting to these tough new conditions? The question has to be answered at two levels, for while farm incomes are undoubtedly down, there are other factors helping to soften the blow.

According to the official statistics, Britain has some 250,000 farm holdings. The size of this number, given the regional differences in climate, soils and management efficiency, makes generalisation difficult. However, the general consensus is that Britain's arable farmers are suffering most, with the dairy sector in best heart.

Britain has some 10m of its 18m agricultural acres under cereals, mainly in the east. Hit by poor harvests in three of the last four years and with EC prices cut by 25 per cent over that time, farm incomes, according to the NFU, have been clipped by a real 9 per cent a year. While few arable farmers are replacing farm machinery, those in real trouble are in areas like Aberdeenshire where cereal growing is recent and yields low. Particularly hard hit – and this applies throughout the UK – are tenants subject to continuingly high rents or farmers who borrowed heavily to expand on the back of very high EC support prices seven or eight years ago.

By contrast, dairy and also beef and sheep farms, which between them account for some three fifths of full-time farms, are faring better. Dairy farmers are doing especially well now. Production quotas have had a salutary effect on efficiency, the culling of cows has led to high calf prices, and farmers have a new tradable asset in the quotas themselves. Sheep and beef farmers are both worried about the as yet uncertain impact of changes to special CAP regimes which British farmers alone enjoy.

Other sectors which have done much less well over the past year or two include pigs and poultry, both lightly supported by the EC and both traditionally cyclical. Some pig farmers have undoubtedly left the industry, which now appears to be recovering. The full impact of the recent scare about salmonella in eggs and chickens is still difficult to gauge.

But if – with the exception of Britain's 30,000 dairy farms – farmers are doing much less well than in the years of high EC subsidies, the actual effect on farming incomes is often less stark. At least half Britain's farmers do not rely primarily on farming for their living; and farmers are among the beneficiaries of the expanding rural economy.

The common assumption has long been that Britain has a preponderance of large, efficient, full-time farmers. However, recent official studies suggest that already nearly half the 250,000 listed farm holdings are under 40 acres with an average net income from farming of only £450 a year. A pilot study of such farms in 1987 estimated that owners of these holdings had non-farm incomes of about £9,000 a year, from other jobs, investments or pensions.

While some of these part-timers are small-scale livestock farmers from Northern Ireland, Wales or Scotland – and some others in unexpected areas like East Anglia are simply inefficient smallholders such as might be found in southern Europe – many of the English holdings are owned by non-farmers and run for pleasure.

According to last year's Annual Survey on Farm Incomes, these small farmers account for no more than 5 per cent of total agricultural production in the UK. However, that survey shows that Britain's full-time farmers also have alternative sources of income, although in the lower proportion of one third to two thirds.

More information on the incomes issue, which until now has barely been debated, is promised in this year's agricultural review, due from the ministry later today. But the importance of the trends highlighted so far is obvious.

First, the move towards more small non-farming holdings is obviously well under way. So is its obverse: the creation of yet larger farms. According to the survey, nearly 60 per cent of traded *farm* production is already produced from the 29,500 largest holdings.

Second, full-time farmers would appear to have some cushion against falling farm incomes, and at least in some cases this will be augmented by government aid to encourage diversification.

Third, however, is what the official statistics do not yet show, but which might prove to be a critical question: how far will farmers be able to offset their declining farm incomes by profits from the spiralling demand for residential and industrial rural property and for development land?

It is clear that profits can be substantial but so far there is only anecdotal evidence to back the suggestion that these are spread quite widely. One Oxfordshire farmer is typical of many such example. He sold his Queen Anne farmhouse, but not the farm. With the proceeds he moved to a bungalow and bought a 200-acre holding in Aberdeenshire for one of his sons.

On a different level, Strutt and Parker, the land agents, noted recently that the 7,500 extra houses approved by the Environment Department for building in Berkshire would occupy some 750 acres of farm land. At £500,000 an acre this could put £375m into farmers' pockets.

Farmers who make most of their living from the land and are doing badly now are right to point out that not everyone can benefit from selling land for development. But they are fond of grousing and tend to get very cross at suggestions that official note should be taken when shortfalls in their farm income are made up from other sources.

In future, however, the Government, and possibly the rest of the nation's taxpayers, seem less likely to be indulgent towards such arguments. This will especially be the case if farmers in general fail to appreciate that as the revolution in the rural economy proceeds, they must change with it.

OBSERVER

Teabreak for Alexander

■ It seems that nothing, neither advancing age nor prolonged immersion in the teabag business at Joe Lyons, can stale the ambitions of Sir Alex Alexander.

At 72, the chairman of the tea and cakes subsidiary of Allied-Lyons has chosen to pass up retirement and make a career move which would daunt many a younger man.

When he takes over in March as full-time managing director in the London office of investment bankers Shearson Lehman Hutton, Alexander will shift from the grocer's trade to hawking corporate finance services across Europe.

Synergies may not be immediately apparent, but the new man has qualities that count for a lot in any business. He is extraordinarily gregarious, and boasts an address book the size of a telephone directory, stuffed with the names and numbers of the great and the good.

It came into play often during the 1985 defence against the Elders IXL takeover bid, when Allied skimmed the cream of the business and social establishment in the search for supporters willing to speak against the upstart Australians.

He was perhaps only half-joking when he volunteered at one meeting that he had excellent contacts at Buckingham Palace (where Allied catered at Royal garden parties) which might be brought into play.

Occasionally crotchety and certainly incorrigible, Alexander has a reputation as a wily negotiator. During the Elders scrap, he once held out at length on a point of defence tactics. He bowed to the majority among his colleagues, but brazenly tried to reopen discussions at a subsequent meeting, denying all knowledge of any previous consensus.

"Perhaps I did not understand," he said ultimately, not above playing on his central European origins, and cheeky enough to hint that his command of English might be less than perfect.

Alexander was educated at Charles University, Prague, which has sent its share of graduates to the West, including Ivana Trump – wife of Donald. He has a creative way with his adopted tongue. After winning a bruising negotiating bout, he beamed about him: "You see," he growled, "we sent them away with their tails between their teeth."

He is also tough. As chairman of the Royal Opera House Trust, he was recently told that a friend of his had donated £100,000. "But he promised me £120,000," said Alexander. He reached for his address book, made a telephone call and the outstanding £20,000 was secured.

Smart shares

■ This could be an interesting day to open a new private client stockbroking business. Nevertheless, Killik & Co is going ahead in Cadogan Street, close to some of London's best-known shops, like Peter Jones. Paul Killik once led the private client department at Quilter Goodison, opened the Quilter share shop in Debenhams and is now looking for the right mix of new and old money.

Schoenberg pop

■ The belief that Schoenberg is guaranteed to make concert-goers stay at home in droves should finally have been dispelled by the performance of Gurrelieder at the Royal Festival Hall on Saturday. It was repeated and broadcast live on BBC Radio 3 yesterday. On Saturday the hall was packed and the performance, espe-

cially in the second half, took off in a way more associated with the Opera House. Conducted by Simon Rattle, played by the City of Birmingham Symphony Orchestra and enhanced by the London Symphony Chorus, it was one of the best performances of anything I have ever seen anywhere. It should now become a standard work, though it does need a very large orchestra and a chorus of over 200. Possibly it also needs Rattle, who showed that there is nothing unnecessarily complex about it. Indeed it is deeply romantic: not how one thought of Schoenberg at all.

Eyes on Brady

■ President Bush continues his political honeymoon: if anything, gaining in his reputation since he was elected. Already, however, some Washington knives are out for one of of his closest friends: Nicholas Brady, the Treasury Secretary. The insidious buzz is that he is not up to the job.

Brady was nominated last summer to take over from James Baker, and Bush – as Vice President – must have had more than a hand in the choice. The trouble is that Brady has *not since appeared* to be master of his brief.

In evidence to a Senate committee last year, he failed to give a clear lead on leveraged buy-outs, a subject on which he is supposed to be an expert, given his lengthy Wall Street experience at Dillon Read. In that previous capacity he had chaired the inquiry into the stock market crash of October 1987, but his report was less than memorable.

More recently, Brady has been accident-prone: saying that he was not worried about the dollar last November when it was falling fast. Last week he floated proposals for a depositor fee to deal with the savings and loans crisis, only to be denounced by Congressional leaders of both parties. This has given Bush his biggest political embarrassment to date and forced the President to reassure depositors.

Thus stories about Brady's lack of political savvy are going round the capital. Possibly it does not matter too much, for the other members of the Bush economics team – budget director Richard Darman, chief adviser Michael Boskin, and special trade representative Carla Hills – have shone at their Senate confirmation hearings. But it could mean a shift in economic policy-making away from the Treasury.

Meanwhile, Brady will chair the meeting of the Group of Seven finance ministers in Washington on Friday. The visiting ministers will be sizing him up, trying to find out where power lies and indeed what is the economic policy of the new Administration.

Cars or dogs?

■ Small ad in this week's Home & Garden: "Miniture long haired Datsuns, 1 male, 3 shaded, 1 female choc and cream, ready now."

The strains on the ties that bind

David Goodhart examines the underlying tensions that have surfaced in relations between the US and West Germany

The bitter rift between Bonn and Washington over the role of West German companies in supplying the suspected Libyan chemicals plant has now been officially repaired. But by drawing attention to the divide between the US and its most important European ally on a variety of other trade and security matters it has once again encouraged talk of a "German problem" for the Western alliance.

Such talk must be kept in perspective. In the late 1970s and early 1980s the West German government was at times openly contemptuous of its partner in Washington. There were serious arguments over the Soviet gas pipeline, Poland and Afghanistan. The German-inspired decision to persuade the US to deploy intermediate range nuclear missiles (INF) in Europe sharply divided the country and created a Green Party which continues to voice an undercurrent of anti-American feeling.

On the surface things are not so bad today. Yet the simmering dispute over the modernisation of short-range nuclear weapons, combined with growing disenchantment with the massive concentration of Nato military force in Germany, at a time of apparently receding threat from the East, are reviving old Nato anxieties.

West German interests are, some fear, starting to diverge dangerously from those of its main Nato partners. The division of Germany and its exposed position on the East-West fault line have for two decades given the German public and politicians a special interest in the reduction of East-West tensions, hence the particular willingness to believe in, and respond to, the Gorbachev reforms.

But that response is eroding the military consensus in Germany, especially because, unlike other Nato countries, the German military exists only because of the Soviet threat. With that threat diminished, it is the dangers and inconveniences of Nato strategy that preoccupy the public.

Germany is host to the most dense concentration of military forces in the West; it provides Nato with the largest land army in Western Europe; its air space is used by seven different Nato air forces; and 2,000 military manoeuvres take place on its land every year. Worse, the recent removal of INF weapons from several European countries, while welcomed in Germany, has now left the bulk of Nato's remaining short-range nuclear weapons based on German soil and capable of detonating only in Germany – East or West.

This "singularisation" problem was predicted by German politicians at the time of the negotiations over removing the INF weapons. What could not be foreseen then was the recent spate of serious accidents involving Nato forces which has given the problem an emotional twist, stimulated anti-Americanism and revived the issue of German sovereignty.

Germany is not about to leave Nato. But there is talk, even in conservative circles, of the need for a "new trans-Atlantic accord". This amounts to giving German interests greater weight in Nato – by, for example, agreeing to postpone modernisation of short-range missiles – with the veiled threat that, if this does not happen, more radical forces may march Germany out of the Western alliance.

Professor Michael Stürmer, a conservative historian and former speech-writer for Chancellor Helmut Kohl, says that nuclear risk "now *all* seems to be concentrated here. Modernisation will only encourage the strong tendencies within Germany to disentangle completely from the Western security system."

He warns that if the US tries to make a "virility test" out of modernisation, it will have political costs in Germany that will far outweigh the security benefits.

Mr Richard Burt, US ambassador in Bonn for the past three and a half years, also warns of a growing gulf between what Germany and the US expect from each other. "The Federal Republic wants more understanding and the US wants more readiness to agree," he says.

This could therefore be a fortunate moment for a change of administration in Washington. By making Mr Vernon Walters, one of Washington's most experienced trouble-shooters, the next ambassador in Bonn, President Bush is indicating how seriously he takes the new German question.

But Mr Burt indirectly warns against trying to push the Germans back into line. "I think I am still right to say we are evolving towards a more equal relationship, away from the 1950s and 1960s when the US clearly led and Germany followed. What I may have underestimated are the frictions and misunderstandings along the way," he says.

He believes the Germans are groping towards a more assertive role in Europe and in East-West relations. In some respects that is welcomed by the US, concerned to share burdens with its stronger allies.

But Mr Burt fears *that* this assertiveness, combined with hesitation over modernisation, is creating impatience in Washington, where few share his sympathy for German defence burdens. US troop reductions *in Europe are back on the agenda.*

In private, US diplomats talk of the problem of moving from a parent-child relationship to a parent-adolescent relationship. The Libyan chemical plant row illustrates the point. *The Germans felt they* were being pushed around by the US. The initial reaction of Mr Helmut Kohl, the Chancellor, was to lash back.

"There was a feeling that we cannot be treated like this any more," one senior Bonn official said. As it happens it was an unfortunate case in which to express new assertiveness.

The Government now seems ready to do all it can to stamp out the illegal side of the chemical business. But the affair has not won the country many friends in Washington, where the spectre of Genscherism – a semi-neutralist, pro-Soviet policy attributed to Mr Hans-Dietrich Genscher, the Foreign Minister – is perceived by a *number of influential figures.*

There are, of course, important differences over security policy in the centre-right coalition in Bonn. Mr Genscher and his ministry want a more pivotal role in East-West relations for Germany, a *quicker pace of* disarmament, and more willingness to trust Mr Gorbachev. The Defence Ministry is more cautious. Mr Kohl hovers somewhere between the two. But not even a critic of Mr Genscher, like *Mr Josef Joffe, foreign editor of* the Süddeutsche Zeitung, believes that he has a hidden agenda to de-nuclearise Germany or Europe.

What Mr Genscher does seem to believe is that it is possible to come close to parity in both conventional forces and short-range nuclear weapons with the Warsaw Pact and that a firm decision now on modernisation of Nato's short-range nuclear missiles might jeopardise such a deal.

More worrying for the US may be the showing of opinion polls: 79 per cent of the West German population is reported as favouring a non-nuclear Europe and 44 per cent favours neutrality between East and West. Although there is also a large majority for staying in Nato, the apparent rejection of Nato's nuclear strategy of "flexible response" is one reason for the coalition's deliberate fogginess over security issues.

Mr Joffe and younger members of the coalition such as Mr Werner Hoyer, a Free Democrat, are worried about lack of leadership on defence issues. Mr Hoyer believes in retaining nuclear weapons but also in spelling out what the minimum requirements are for defence, even in a period of reduced East-West tension. Those minimum requirements might not please the Nato strategists but they have to accept a tactical retreat or face a rout.

Mr Hoyer might also set some *alarm bells ringing by agreeing with* the view that such a new deal with the German public would be made easier if the old occupying powers – the US, UK and France – would relinquish the last of their residual powers *over the territory of the Federal* Republic (nobody wants to tamper with Berlin).

These powers no longer mean very much because the "occupying powers" are generally too diplomatic to assert them. But, when issues such as control of low flying are current, it is all too easy for political opportunists to confuse the restrictions on sovereignty that result from membership of Nato and the restrictions peculiar to Germany that result from the lack of a formal peace treaty after the Second World War.

Most politicians in Germany seem to believe it is not possible yet to tamper with the post-war settlement, and some believe that questioning the provisional nature of the German state would undermine the aim of reunification. But Professor Werner Weidenfeld, a conservative academic and adviser to Mr Kohl, worries that the sovereignty debate represents a *new strain of political romanticism.*

He, like many others, still sees no realistic or desirable future for Germany outside the Western alliance and prefers to place US-German tensions in the context of the US's *ambivalent attitude towards a stronger* and more united Western Europe. Indeed, most security experts see the greatest long term threat to the alliance in deteriorating trade relations between the EC and the US.

Mr Burt believes that trade disputes "are bound to corrode security co-operation." His biggest fear is that the restructuring hastened by the EC plans for a single market after 1992 will create powerful lobbies for "*transitional protection*" in the weaker sectors and that "Fortress Europe" will arise without anyone willing it.

Germany is firmly on the US side over free trade. But as the most economically powerful nation in the European Community, it also has an interest in a more politically unified Europe. For the US, sharing security burdens with a strengthened Europe inevitably means sharing power; and nobody likes to relinquish power – *especially not to someone you do not* quite trust.

On the autobahn: a US tank on manoeuvre in West Germany

LOMBARD

When eyebrows are not enough

By David Lascelles

THE BANK of England has, understandably, been thrown on the defensive by the Equiticorp affair, and the problems it poses for Guinness Mahon, the City merchant bank of which Equiticorp owned 61 per cent.

Much of the criticism is justified: the Bank was slow to react to the dangers of a fast-moving company like Equiticorp owning a controlling stake in a bank – dangers which were widely commented *on when it made its acquisition* in 1987. And when the Bank did finally take action to force a divestiture, it sought to delay a fraud investigation in order to help the transaction go through, an extraordinary action for a central bank to take.

The Bank's defence is that it lacked the powers to stop the Equiticorp bid, though that weakness has since been corrected by a new Banking Act. And once the Bank did get tougher powers, it needed to be able to construct a convincing case that would withstand challenge by Equiticorp in the courts, and that was very difficult. Hence the decision to try to ensure that Guinness Mahon remained as independent of Equiticorp as possible, pending a negotiated divestiture.

All these claims may, indeed, be well-based. But they have sounded less than convincing in the City, largely because of the widespread belief that the Bank is sufficiently powerful *to get its own way without* needing recourse to statutory powers and blunt instruments. If it had really appreciated the threat posed by Equiticorp and had wanted to see it off the *premises, it could have done so* with a gentle but firm push in the direction of the door.

That, at least, is the traditional view of how the Bank works. But maybe the real lesson of *Equiticorp is that the* City greatly overrates the Bank's powers of persuasion and this creates expectations about its effectiveness and performance which it will, at *times, fail to fulfil.*

If so, it is time the traditional view was reassessed.

The Bank's mystique has never been founded on much more than the willingness of *the rest of the City to recognise* it. Much of the City, indeed, likes to believe in it because it reinforces the sense of community and helps to preserve some of the regulatory flexibility which is notoriously absent from many financial centres in other countries. And many outsiders have also heeded the Bank's quiet wishes: non-banking types who have refrained from buying too deeply into the UK banking industry in recent years include Robert Holmes à Court, Larry Adler and Robert Maxwell.

But the mystique exerts less sway over outsiders for whom the sanctions of rule-breaking – ostracism from the City – hold no terrors, or for those who have a strong power base of their own. Equiticorp was an example of the one, and the Hongkong and Shanghai Bank of the other - when it defied the Bank to mount its bid for the Royal Bank of Scotland in 1981. Both of them gave the Bank a big headache, though the Hongkong Bank has since regained acceptance.

Although the situation has altered greatly with the Banking Act of 1987 which gives the Bank explicit powers to banish those who are not "fit and proper", the image of the Bank has been slower to change. The presumption of its omniscience *and infallibility has not disappeared completely; in some* ways the growing nostalgia for the City of pre-Big Bang days has even brought about a modest revival.

And statutes are not everything. Sir Kit McMahon, the former Deputy Governor, warned recently of the danger that a more bureaucratic regime might actually weaken *the Bank's ability to influence.* It had always flourished on its own judgment and assessment, he said, and although the Bank's system was still the best in the world, the Financial Services Act and the Banking Act had not helped matters.

Useful though the image of omniscience may be for the Bank in its conduct of banking supervision, the cost of this presumption has been exposed by Equiticorp.

In an era of rapid change, the City needs to be clear about the strengths and limitations of the Bank; to have any illusions about either is bound to lead to trouble.

LETTERS

Polish on the machinery

From Mr Robert Solomon.

Sir, Jeffrey Garten's article (January 18) proposes that foreign central bankers from Bonn and Tokyo be invited to sit with the Federal Reserve's Open Market Committee and that Americans do the same at the Bundesbank and the Bank of Japan.

That is an eye-catching suggestion, designed to improve on the ad hoc policy-co-ordination meetings of the Group of Seven. But it is also naive. The governors of the Bundesbank and the Bank of Japan, would not be able to make commitments on the spot in Washington.

Agreements among governments and among central banks require consultation and preparation, usually at the level of the deputies of ministers or governors.

Instead of a new procedure, what is needed is a strengthening of the existing co-ordination machinery among the Group of Seven.

The first step would be to introduce *representation by* the central banks at the meetings of G7 deputies.

Under the existing procedures of the G-7, only finance ministries are represented at the deputy level. This makes little sense, given the importance of monetary policy in the co-ordination process.

To make this change would be less spectacular than what *Mr Garten recommends,* but perhaps more practical.

Robert Solomon,
The Brookings Institution,
1775 Massachusetts Ave NW,
Washington DC, 20036, USA.

Reading matter

From Mr Paul White.

Sir, I am an independent bookseller and would welcome the abolition of the Net Book Agreement, partly because it might halt the flow of laughable articles such as Richard Lambert's (January 20).

My customers require efficient service from publishers. The cashflow this provides is what subsidises a wide stock-holding for him to spend half an hour browsing through.

As a follower of the stock market I note the regularity with which the earnings of publishing companies are more highly rated against the market. I wonder if this is because publishers can call the tune over what we pay for our reading matter. Suggesting that the publishing cartel is worth preserving is like suggesting Opec are the best judges of the price we pay for oil.

An inefficient distribution system is putting independent booksellers out of business, not saving them. The largest book retailers already negotiate the biggest discounts – so what would change? *The best selling* books in Britain – educational titles – are not covered by the NBA and booksellers are used to selling these on lower discounts already. Let us hope that common sense wins through and service to the customer prevails over the vested interests of publishers.

Paul White,
The Bookshop, 41 High Street,
Woburn Sands, Milton Keynes

Increasing security

From Mr David Spark.

Sir, Joe Rogaly (January 20) argues for an increase in child benefit. Many families would welcome this, but they would receive only a limited proportion of the extra money. I give higher priority to an increase in social security rates.

This is especially necessary now that one-off grants for furniture, clothing and so on have largely given place to a loan scheme. If people are to manage without one-off grants, they need adequate income.

The treatment of people with no permanent home also needs to be more generous. Some are forced to sleep rough if they have no money for their next night's lodging. They cannot draw money for it in advance, but many landlords want payment in advance.

David Spark,
47 Seagry Road, E11

Feeling the aftershocks

From Mr W.Z. Bergson.

Sir, Jack Morris hit the nail on the head (January 14) when he indicated that most independent financial intermediaries are so busy trying to earn a living that they do not have the time or money to mount an *effective lobbying campaign.* As a result, the Financial Services Act and the rules issued under it have been an almost total one-way street in favour of the direct selling insurance companies.

The Government may pay lip-service to the principle of a free market and fair competition but the plain fact is that hundreds if not thousands of perfectly respectable financial advisers are either being forced out of business or into becoming tied agents.

There is an urgent need for the Office of Fair Trading to conduct an in-depth study of the structure of the financial services industry in the wake of the Financial Services Act.

W.Z. Bergson,
Warren Bergson Associates,
Britannic Buildings,
46 Victoria Street,
Manchester

Plenty of chips

From Mr Richard H.W. Bullock.

Sir, We have read with interest your feature (January 11) on Hinari, and welcome Mr Brian Palmer's plans to start manufacture in Scotland shortly. However, you quote him as saying that "the basic infrastructure for supplying components (for consumer electronics manufacture) in the UK has disappeared."

This goes too far. A significant proportion of home sales by Electric Components Industry Federation members and their substantial export sales are to the UK consumer electronics industry, which has been one of our strongest markets in 1988. And throughout the world certainly include sales to the consumer electronics sector.

Japanese consumer electronics manufacturers in the UK do not complain of the absence of basic infrastructure for supplying electronic components; on the contrary, they regard the UK industry as a competitive and reliable source. So why not Hinari?

Richard H.W. Bullock,
ECIF,
399-401 Strand, WC2

Hello Utopia

From Mr Bryn Jones.

Sir, Your highly pertinent remarks on the need for extra public funding of university salaries (January 25) are welcome to our distressed profession. However, they also raise a much more fundamental and disturbing inconsistency in Government philosophy and strategy. The ruling assumption seems to be that in principle, and in time, every conceivable good and service will be undertaken by the market.

This is a classical example of utopian thought: subsuming the handling of every practical affair beneath a dogmatic vision of a perfect work. It is imperative that all moderates with any external or internal influence on the Government challenge this new utopianism by calling for meaningful boundaries between public and market spheres. If realism does not prevail soon, then market-controlled higher education, *and the knowledge industries* in general, will squeeze out the individuals who can identify such illusions.

Bryn Jones,
University of Bath,
School of Social Sciences,
Claverton Down, Bath

Lord Young's big decision

From Mr K. Geyve Walker.

Sir, It is common ground that Lord Young has a discretion rather than a duty to decide whether to refer the Fraser bid to the Monopolies and Mergers Commission, but what must the Secretary of State do to exercise his discretion lawfully?

He is under no statutory duty to publish his reasons immediately, but if he has not put forward any good reason for his decision the court may infer that there is no good reason.

Lord Justice Dillon found that Lord Young is entitled to conclude that "a reference is not appropriate because the unscrambling procedures are not the best answer." So he is, provided that there is some reasonable justification for his decision that disinvestment is *not appropriate.* But is there any?

Lord Young does not profess to know the full facts and until he does he cannot reasonably justify restricting his ability to respond by *deliberately denying* himself the power to order disinvestment.

K. Geyve Walker,
The Old Vicarage,
Barton, Tirril,
Cumbria.

FINANCIAL TIMES
Monday January 30 1989

Janet Bush on Wall Street

Esops carry a sting in the tale

"WHEN a Polaroid socks in a few hundred million and a Procter & Gamble billions, you have to conclude that some people are getting the word," says Mr Louis Kelso, inventor of Employee Stock Ownership Plans (Esops) and impassioned crusader for more than 30 years for wider distribution of the nation's capital.

Author of The Capitalist Manifesto and co-author with Patricia Hetter Kelso, his wife, of Democracy and Economic Power, this lively San Francisco attorney in his mid-70s is referring to the Esops adopted by two of the largest companies in the US.

Polaroid expanded its Esop last July, expressly to fend off an unwanted bid by Shamrock Holdings. Earlier this month, a Delaware court turned down the predator's challenge of the Esop, making it much more *doubtful that the hostile bid* will succeed.

On January 11, Procter & Gamble announced that it had set up an Esop which, together with an existing profit-sharing plan, would eventually give employees a 20 per cent equity stake in the company.

Procter & Gamble said that *the prime reason for setting up* the plan was to gain the accompanying tax advantages and improve its employees' retirement security. It also acknowledged that *its defence* against unwanted takeover had been strengthened.

Esops have been around a long time and were the precursor of leveraged buy-outs. The first was in 1957 when Mr Kelso helped employees to buy out the owner of their Californian newspaper.

Since then, they have evolved. Increasingly, Esops have been set up using borrowed funds, called leveraged Esops, and have a great deal in common with leveraged buy-outs.

While thousands of companies have quietly been bought by their employees in relatively straightforward deals over the past 10 to 15 years, the headlines have been made by Esops which have been used to provide part of the financing for LBOs and, conversely, been set up as a defence against hostile takeovers.

Mr Kelso believes that they have a much more fundamental role than this but nevertheless comments about the Polaroid and Procter & Gamble Esops: "They were inspired to do the right thing for the wrong reason. Employees are natural shareholders."

The key difference between what Mr Kelso envisaged back during the Depression and what has evolved is that the technique designed to distribute wealth has now been used to concentrate it.

In an interview with the San Francisco Business Times last year, Mr Kelso recalled explaining in 1964 the logic of the leveraged buy-out to people such as George Roberts and Jerry Kohlberg of Kohlberg, Kravis, Roberts. Their response was, he remembered: "God, if you can buy it through employees, think of what you can do for the rich guys."

Mr Kelso couldn't be more scathing about what he sees as the misuse of the Esop technique. "A deal like RJR Nabisco destroys the real fabric of the economy. It takes a lifetime to build up a company and then a few highwaymen run it through a financial chop shop in order to get the debt off their hands," he says.

The central tenet of Mr Kelso's economic beliefs – which he describes as binary economics or social capitalism – is that capital should be spread as widely as possible in order to ensure widely based economic demand to sustain growth.

Widespread capital ownership would also help avoid poverty. "The single cause of poverty in the modern economy is the failure to own an adequate capital estate," he says. Holding a job is no longer an adequate return from the capitalist system, particularly in the *age of new technology*.

From the mid-1970s, the idea of wider capital ownership caught on and numerous tax incentives were written into law.

There have been calls in Congress for tighter restrictions on Esops. Mr Kelso, who is primarily concerned with wider ownership of capital not worker participation in management, has three responses to this.

Firstly, tax breaks should be enormously improved, not eroded. Secondly, a certain percentage of any financing over a particular amount should be "binary financing" as a matter of national policy. Thirdly, abusers of Esop techniques should be punished.

Bid to break farm trade deadlock

By Bridget Bloom and Tim Dickson in Brussels

A GLIMMER of hope that the deadlock between the US and the European Community on reforming world farm trade might soon be broken was offered at the weekend by Mr Frans Andriessen, EC Commissioner for External Affairs.

In an exclusive interview, Mr Andriessen said the European Commission would seriously re-examine its position on the agricultural issue within the Gatt (General Agreement on Tariffs and Trade) negotiations to see whether there was some way through the impasse which prevented progress in the mid-term review of the Uruguay round of talks in Montreal last December.

It was not in the EC's interest that agriculture should continue to block agreement within the talks, Mr Andriessen said. "Agriculture remains very important to us, but not so important that the whole Gatt Round should fail. That price would be too high," Mr Andriessen said.

However, Mr Andriessen, who took over as External Affairs Commissioner earlier this month after four years with responsibility for agriculture, refused to disclose details of how the deadlock might be broken.

Fundamental differences between the US and the EC over the extent to which agricultural subsidies should be reduced has impeded progress within the Uruguay talks for the past 18 months. The US has continued to insist that the EC must make a long-term commitment to abolish all trade distorting agriculture subsidies, while the EC has so far been prepared to contemplate only shorter term, partial reductions.

The new European Commission, which took office on January 6, would shortly be examining its negotiating position in preparation for the full Gatt meeting in April. This meeting is to address the failure of the Montreal gathering to reach agreement on agriculture and other less contentious matters.

Mr Andriessen said that it was vital that both the EC and the US should move from their former positions. Unless that happened, he did not see how the stalemate could be broken. He said that the US had consistently failed to appreciate the importance of the agricultural reforms already introduced by the EC.

However, he acknowledged that at this stage it was important that the reform programme should continue. In particular, agriculture ministers should appreciate that the restrictive pricing proposals introduced by the new agricultural commissioner, Mr Ray MacSharry, for the coming year should not be watered down.

If ministers accepted the continuation of such a reform programme, it would give the right signal to the rest of the world and help to break the impasse on the whole issue at the April meeting of the Gatt.

Brave new world on the land, Page 14

Return of the Washington insiders

Under Bush, government-haters are out, reports Peter Riddell

THE REAL winner of the 1988 election in the US was the Washington establishment. You bring in people who are not serious about their ideology – they are high-level bureaucrats at the peak of their profession. So says Mr Richard Viguerie, the direct-mail polemicist for conservative Republicanism.

From another angle, the *Washington Post newspaper*, parish newsletter of the capital, has gleefully celebrated the same theme with recent articles entitled "The Return of the Insiders" and "Establishment Redux." The theory is that, after the Carter-Reagan years, the Government-haters are out, the consensus-loving *insiders are back*.

The resulting debate has tended to confuse three separate strands: background, style and substance. The Bush *Administration is dominated* by familiar people, fashionably educated, with long Washington experience. There are, for example, former proteges of Mr *Elliot Richardson*, the epitome of mainstream Republicanism, in Mr Richard Darman, Budget Director, and Ms Carla Hills, Trade Representative.

On style, Mr Bush has been keen to distance himself from his predecessor. This is not going to be Mr Ronald Reagan's third term. There is much talk about reviving ethical standards in government, being generous towards the homeless and other disadvantaged categories, and restoring the old bipartisanship of the White House and Congress (more proclaimed in retrospect than practised at the time).

President Bush's Washington insiders (l to r): Nicholas Brady, James Baker and Robert Mosbacher

However, even *while talking* in the language of upper-class public service, Mr Bush's message is not that of the late Nelson Rockefeller and east coast Republicanism of the 1960s and 1970s. He and most of his Cabinet have not only lived through, but have also been a close part of, the Reagan revolution. The Bush team has rejected government activism as firmly as any original Californian true believer.

The President may have talked in his inaugural address more about social difficulties than his predecessor would have, but his message was unambiguously that public money is not the answer. These problems have to be tackled by encouraging voluntary and community effort, free markets and the supply side.

The Bush team has also paid due regard to the conservatism of the Republican rank-and-file and *the religious right on* social issues. The new President and his Attorney-General have publicly supported the prospect of a reversal by the Supreme Court of its *Rowe versus Wade* decision, which legalised abortion, when it reconsiders the matter a couple of months hence.

In some respects the new Administration may be more conservative than its predecessor. Mr Bush and his foreign policy advisers are less starry-eyed about President Mikhail Gorbachev of the Soviet Union than was Mr Reagan. They do not believe the Cold War is over and will proceed cautiously on arms control.

The Bush team may also be more effectively conservative after the drift of the past two years. Mr Bush may have to be more conciliatory with Congress than Mr Reagan ever was, because of the divided result of the elections last *November, but he is likely to* provide more of a lead.

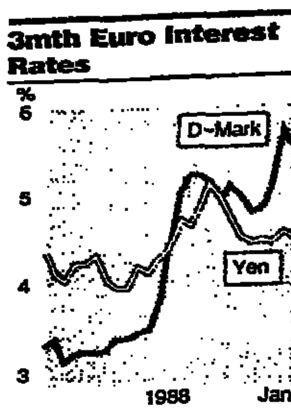
Moreover, for all the insider credentials of Mr Bush and such close friends as Mr James Baker, Secretary of State, Mr Nicholas Brady, Treasury Secretary, and Mr Robert Mosbacher, Commerce Secretary, there is a potentially powerful grouping of conservatives, including Mr John Sununu, White House Chief of Staff, Mr Jack Kemp, Housing Secretary, Mr William Bennett, anti-drugs co-ordinator.

So, as the columnist Mr Fred Barnes concludes in the current issue of New Republic, the Bush people are not centrist. There may be the paradox that, while "the Bush Administration is going to be more conservative than practically everyone expects, the rhetoric won't be." So Mr Bush's line "Read my lips" may not always be the right guide to the Administration's actions.

THE LEX COLUMN

Paris follows its own inside track

While all of France has been acquainting itself with the concept of *délits d'initiés*, traders on the Paris bourse have recently been more concerned with the domestic matter of their pay and conditions than with the spread of insider trading. For the time being, they may be right to take such little *notice of the scandals*; unless the whole thing gets so big that it topples the Government – which scarcely seems likely – the implications for prices are minimal.



The tighter rules that are bound to follow will presumably deter the spiv and may encourage foreign investors, but it is unrealistic to expect any major change in the way prices move. The 13 per cent rise in the Pechiney share price on Friday was as good an example as any of the imperfect behaviour of the market: the trigger was a flat assertion from the finance minister that Pechiney had not overpaid for Triangle – a conclusion which analysts had reached *some* time before.

Meanwhile, the level of the market as a whole seems more distant than ever from economic fundamentals, so that last week's alarming news that the manufacturing trade deficit increased four-fold during 1988 was considered an irrelevance. However, any implication that the market is too high, especially after the 50 per cent rise last year, does not follow. France has only recently discovered the joys of takeovers, and is showing no sign of abandoning them so soon. And if predators are happy to pay multiples of 30 or more – the prices paid recently by Mr Arnaud for LVMH shares have valued it at more than Elf Aquitaine, while unremarkable local retailers are fetching 35 times earnings – the market can scarcely be blamed for going along with them.

Housing credit

The sharp slowdown in demand for mortgages and the increased competitiveness of the building societies has meant that the two year old UK mortgage-backed securities market has gone to sleep for the moment. Whether it is a temporary snooze or something more permanent may become clearer shortly when the Bank of England issues its long awaited final policy notice on loan transfers and securitisation. Its prime concern is the prudential supervision of its flock, but it is not the only part of the Government machine which has an interest in this area; and the more machiavellian observer may see the Bank's new rules as a back-door method of reintroducing controls on the creation of mortgage credit.

Although the demand for housing finance is slowing, a number of major clearing banks and building societies would dearly love to test the £6bn mortgage-backed securities market which has so far been confined to fringe operators, with the exception of a rogue issue from the TSB. It would increase the lending power of major UK financial institutions immeasurably, if they could securitise part of their huge portfolio of personal and commercial mortgages, and shift them off their balance sheet. Meanwhile, the long-term contraction of the £140bn gilt-edged market has meant that investors are anxious to find another home for their money and the £200bn plus of domestic mortgages is an obvious alternative.

The kindest interpretation of the authorities' slowness in responding to the pressures to permit the market to grow is that they are confused. The Bank of England, quite understandably, is anxious to ensure that if a bank securitises an asset and sells it on, its capital is not a risk if the borrower runs into trouble at a later stage. This would be straightforward enough were it not for the fact that major High Street banks and building societies are supposed to observe the Department of the Environment's statement of practice on the transfer of mortgages. This is intended to prevent customers finding that their mortgages have been transferred from their friendly bank to their neighbourhood loan shark.

Under the DOE rules, lenders who securitise mortgages will continue to be involved in the key areas of setting mortgage interest rates and dealing with customer arrears. It is hard to see how the Bank of England can permit this and still allow a bank to have a nil capital adequacy weighting for a securitised asset. If this is the case then the UK mortgage-backed securities market is going to remain of relatively minor importance. And perhaps this is what the Government would prefer. *In the US*, the phenomenal success of the mortgage-backed securities market is the main reason mortgage credit has jumped from 29 per cent to 46 per cent of total credit raised in the financial markets over the last five years. If the conditions for this sort of growth were permitted in the UK it would play havoc with the Government's monetary plans.

Japan

Virtually every member of the G7 is making worried noises over inflation; but some mean it more than others, and Japan is clearly among the latter. True, the Bank of Japan has recently turned up the volume on its comments about prices. But if the Bank were really anxious, three-month Euroyen rates would not now be at virtually the same levels as a year ago while EuroDM rates have nearly doubled over the period. That does not mean, of course, that all is well in the best of all possible worlds: the new year has brought a depressed yen and strong oil prices, which will do their bit to boost import prices; and wages look like rising 5 per cent or so in the spring pay round, while productivity growth is slowing.

But if inflation forecast at 2 per cent for fiscal 1989 will disappoint those who have become addicted to price stability, there is little sign that the figure is high enough to persuade the Bank's officials that major tinkering with interest rates is in order. Still, the Japanese have made clear that what is good enough for the Germans and Americans in monetary matters might be *good enough for them* under certain circumstances. If the dollar tops Y130, they might discover the joys of interest rate manipulation in a hurry. Already the key one-week bill discount rate has been creeping up, but that probably reflects more benign neglect by the authorities than any determined intention to tighten. And though the securities markets quiver a bit whenever a government official raises the subject of inflation, they tend to recover their composure fairly easily.

CDU upset by losses in West Berlin election

By Leslie Colitt in Berlin

WEST GERMAN Chancellor Helmut Kohl's ruling Christian Democrats (CDU) in West Berlin suffered an upset in yesterday's election which also saw their coalition partner, the liberal Free Democrats (FDP), drop out of the city legislature.

The CDU, in computer forecasts, polled 37.1 per cent of the votes, down at least 7 per cent. The opposition SPD polled 37.9 per cent, up 5.5 per cent.

The CDU's stunning losses raise the likelihood of a "grand coalition" between the Christian Democrats under Mr Eberhard Diepgen, the previous mayor, and the SDP. Mr Deipgen said after returns indicated his defeat that he was in favour of such a coalition. He put some of the blame for the losses on the CDU in Bonn. It has lost credibility over deliveries by West German firms of equipment to Libya which could produce poison gas.

Almost as sensational as the CDU's losses was the performance of a new right-wing party, the Republicans. It gained 8 per cent of the votes on a platform opposed to the Turkish minority in the city.

Britain plans cut in Gibraltar garrison

By Robert Mauthner and David White in London and Joe Garcia in Gibraltar

THE BRITISH Government is expected to announce in the House of Commons today that it intends to reduce its military presence in Gibraltar by withdrawing all or part of the infantry battalion stationed in the colony. The UK has a total garrison in Gibraltar of about 1,700.

The planned withdrawal promises a stormy reception for Sir Geoffrey Howe, the Foreign Secretary, due to arrive in Gibraltar today on a 24-hour visit.

The Ministry of Defence in London yesterday described reports of a pull-out as "speculation." It added that force levels were constantly kept under review.

The Government is expected to argue that the present army strength on the Rock is no longer justified and that, against a background of limited resources, the battalion needs to be deployed elsewhere.

The British move comes shortly after a Nato agreement covering Spanish military co-operation with the rest of the alliance, including a role in controlling the Strait of Gibraltar.

Officials pointed out yesterday that the army had sometimes in the past been at less than battalion strength in the colony.

Besides its 780-strong army presence, the UK has about 530 Royal Navy and Royal Marine personnel and 390 RAF personnel in Gibraltar running its naval base and joint civilian-military airport. There are also about 100 UK civilian staff attached to the forces in the colony.

Gibraltar, with a civilian population of about 30,000, is poised to adopt a negative stance to any troop reductions. The prospect has shocked public opinion for both political and economic reasons.

Mr Joe Bossano, the Socialist Chief Minister, wants to discuss the matter fully with Sir Geoffrey before making his reaction known, a Gibraltar official said.

British defence spending in Gibraltar has been dwindling over the years but still represents about £40m ($70.8m) to the economy. Since gaining power in last year's general election, the Bossano Government has been pushing hard to expand other sectors of the economy. In his talks with Sir Geoffrey, Mr Bossano will seek pledges of UK capital expenditure to improve and expand the colony's infrastructure.

Soviets still enormous threat, says Tower

Continued from Page 1

also said that the US's domestic economic problems should not be the main reason for seeking greater financial commitment from Europe.

Mr Tower expressly linked the US's financial difficulties with the need to review defence commitments.

Sir Geoffrey Howe said on Saturday that winning public support for modernisation should be easier as part of a deal which reduced the overall size of the nuclear stockpile.

Meanwhile, Mr Edward Rowny, President Bush's special arms control adviser, said yesterday that Nato should adopt a wait-and-see approach to Mr Gorbachev's promise of unilateral arms cuts.

He said Nato would be wrong to cut its own strength prematurely in response to Mr Gorbachev's announcement last month that he would cut Soviet armed forces by 500,000 men and disband six tank divisions in Eastern Europe.

Interviewed on Channel 4 television in the UK, he said the alliance would want to see if the cuts were made "in a verifiable way."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	14	57	Dubrovnik	S	12	54	Malta	S	15	59	Rhodes	S	14	57
Algiers	S	14	57	Edinburgh	C	10	50	Manchester	F	06	43	Rio de J'o	C	35	95
Amsterdam	F	09	48	Faro	S	14	57	Manila	C	27	81	Rome	F	14	57
Athens	C	13	55	Florence	S	14	57	Melbourne	F	35	95	Salzburg	S	02	36
Bahrain	F	17	63	Frankfurt	C	04	39	Mexico City	-	—	—	San Francisco	F	12	54
Bangkok	C	31	88	Funchal	R	15	59	Miami	F	23	73	Seoul	C	01	34
Barcelona	S	13	55	Geneva	C	00	32	Milan	-	—	—	Singapore	F	31	88
Beirut	F	18	64	Gibraltar	C	14	57	Montreal	C	05	41	Stockholm	C	06	42
Belfast	C	08	46	Glasgow	R	10	50	Moscow	C	02	36	Strasbourg	Fg	-2	28
Belgrade	C	02	36	Guernsey	C	08	46	Munich	S	01	34	Sydney	C	23	73
Berlin	R	07	45	Helsinki	F	05	41	Nairobi	C	24	75	Taipei	C	13	55
Biarritz	S	11	52	H. Kong	C	15	59	Naples	S	12	54	Tangier	F	13	55
Bombay	S	32	90	Innsbruck	S	04	39	Nassau	F	26	79	Tel Aviv	C	16	61
Bordeaux	S	08	46	Inverness	F	12	54	New Delhi	F	22	72	Tenerife	F	19	66
Brussels	C	10	50	Islamabad	C	18	64	New York	R	08	47	Tokyo	F	11	52
Budapest	C	-1	30	Istanbul	C	06	43	Nice	S	15	59	Toronto	C	09	48
B. Aires	C	33	91	Jakarta	R	30	86	Nicosia	F	13	55	Tunis	C	14	57
Cairo	F	15	59	Jersey	Fg	08	46	Oporto	S	13	55	Valencia	S	14	57
Cape Town	S	29	84	Jo'burg	F	27	81	Oslo	C	10	50	Venice	S	10	50
Caracas	C	25	77	Lima	F	27	81	Paris	F	12	54	Vienna	S	01	34
Casablanca	S	14	57	Lisbon	F	14	57	Peking	F	00	32	Warsaw	C	00	32
Chicago	C	09	48	London	F	10	50	Prague	S	00	32	Washington	C	12	54
Cologne	C	03	37	Los Angeles	F	16	61	Reykjavik	Sn	-3	27	Zurich	C	-2	28
Copenhagen	F	08	46	Luxembourg	C	-1	30								
Corfu	S	12	54	Madrid	F	11	52								
Dallas	C	09	48	Majorca	S	15	59								
Dublin	S	09	48	Malaga	F	15	59								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Memorial to Stalinism

Continued from Page 1

cution which he launched – is something to which the Soviet leader is himself committed.

However the Soviet authorities want to bring the whole exercise under the control of the Ministry of Culture, while the Memorial activists who launched the campaign are determined to have their own say.

The confusion was apparent yesterday when it emerged that thefirst issue of a Memorial newspaper had suddenly been reduced in circulation from 30,000 to 5,000 and an item reporting the Solzhenitsyn resolution censored.

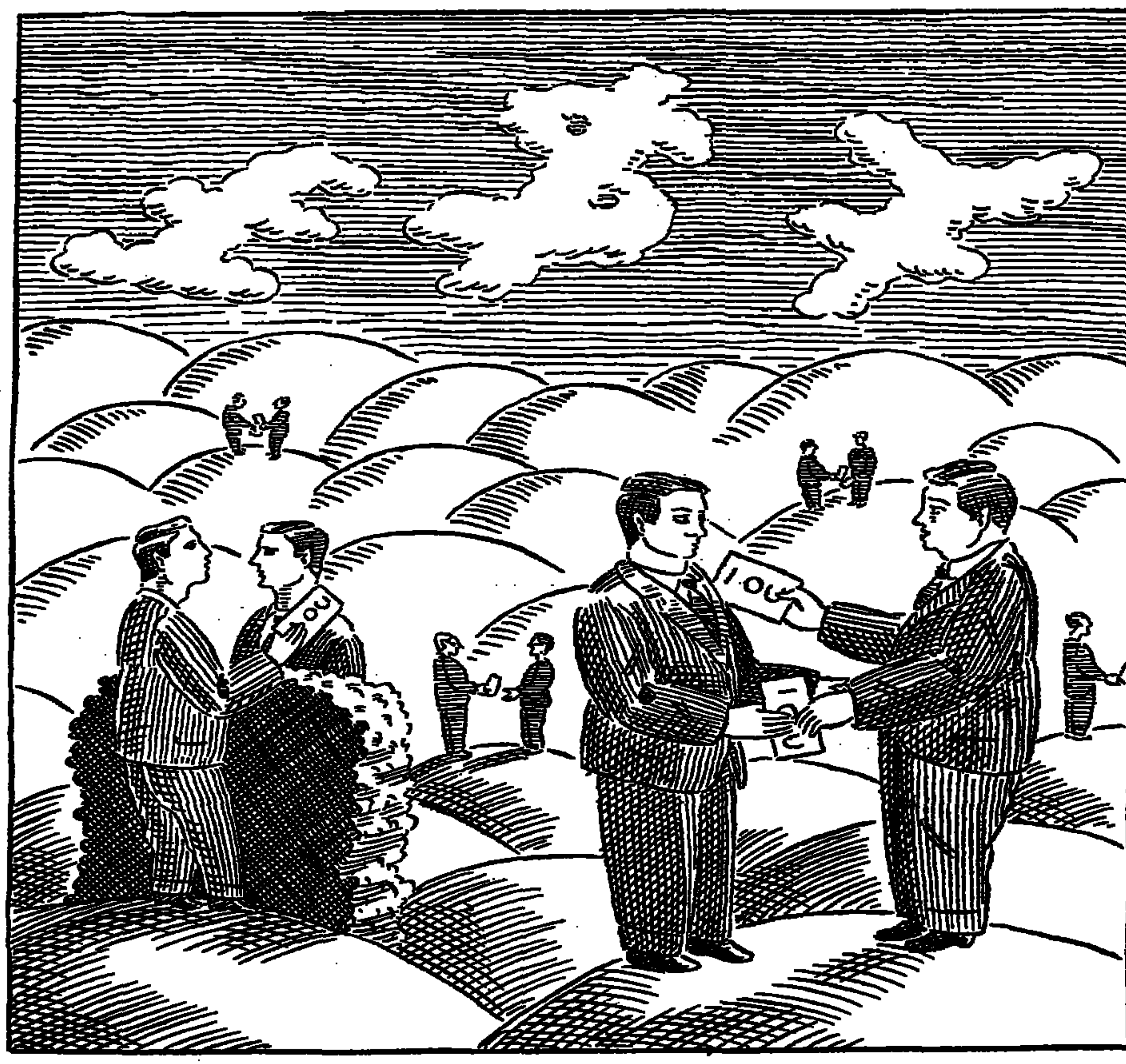
Provincial members of the movement reported how their efforts to organise meetings and raise funds for the memorial had frequently been suppressed or discouraged by local authorities. One demonstration in Minsk was actually broken up with teargas.

The movement includes many of the most ardent intellectual supporters of Mr Gorbachev's perestroika, including Mr Yuri Afanasyev, director of the Moscow Historical Archive Institute.

SECTION III

FINANCIAL TIMES SURVEY

Commercial Paper



Many domestic CP markets grew last year, most notably Japan's, writes **Stephen Fidler**. The US benefited from reaction to the equities crash, but growth was to the detriment of Eurocommercial paper. *Low profitability diverted* dealers to medium-term notes.

Hard going in London

CONTENTS

□ *Illustration: Simon Stern*

THE LAST year has been one of growth in most of the world's markets in commercial paper, short-term IOUs issued by companies, banks and the occasional sovereign borrower.

Many domestic markets flourished, most significantly the new market in Japan. After the poor precedent set by failure of the bankers' acceptance market a few years earlier, many in Tokyo expected the commercial paper market to flop. But that prediction failed to take account of the strategic importance that it would assume in the eyes of the Japanese banks and securities houses.

The commercial paper market has provided a battleground for the securities firms to move in on the business of the commercial banks, and both sides have poured in resources. The main beneficiaries have been the issuers.

The US market – the world's oldest and still by far the largest – benefited from the reaction to the October 1987 stock-market crash, which pushed investors into the short-term money markets.

After initially seeking quality, in the form of Treasury bills, investors then sought to increase yields by moving into commercial paper markets. The move was further encouraged by the flattening of the yield curve: with short-term interest rates close to longer-term rates, there was little incentive for investors to extend maturities.

This spur to growth of the US market has been to the detriment of the market in Eurocommercial paper (ECP), the London-based dollar-dominated international market. Yields in the US market in 1988 – for most maturities out to six months and for the corporate borrowers of higher credit quality – were lower than in the international market. As a result, those borrowers with a choice have naturally preferred to issue in the US.

Indeed, some dealers cannot see the yield advantage of the US market reversing any time soon, particularly since arbitrage between the two markets is limited. The ECP market continues to follow rates in the interbank market. Day after day, the Bank of England's index of corporate commercial paper yields a couple of basis points above the rates banks bid for funds in the interbank market. Weaning investors in Europe, who do not share their US counterparts' fear of commercial bank risk, from interbank rates continues to be a tough task.

If the US market continues to deliver yield advantages to issuers, it suggests continuing constraints on the growth of the ECP market, and means that only borrowers at either end of the credit spectrum would find the ECP market attractive.

At the one end are sovereign and quasi-sovereign borrowers. Central banks in Europe and elsewhere are the main buyers of this paper, which they use to park short-term dollars at higher yields than they can obtain on the only alternative they can contemplate: US Treasury bills. As a result, this is a sector where yields are freed of the interbank market and competitive with the US.

At the other are the smaller or lower-quality companies without access to the US markets, or those which do not have a US programme because they do not want to jump through the hoops required by the US rating agencies to obtain the obligatory rating.

There is no doubt that growth has also been constrained by continued worries about the weakness of the US dollar. While the currency swap market has allowed the market to grow despite the dollar's weakness – the figure varies, but a market leader like Citicorp says up to 40 per cent of its ECP is bought by investors hedging into a preferred currency – the attraction for international investors would grow considerably if there were a sea-change in attitudes towards the dollar. The US market, with its natural dollar investor base, does not suffer from the same constraints.

For these reasons, the ECP market has not grown as fast as some of its more excitable proponents had predicted. According to figures provided by Euroclear, 1987 issuance of both ECP and Euronotes peaked in October at $53.5bn. At the end of 1987, the figure slipped to $51.5bn. By April it had surpassed $60bn and peaked at $70.2bn in October. It ended the year at $67bn, the late-year fall being an indication that corporate issuers prefer not to swell their balance sheets through issuing commercial paper over the year end, particularly if they are simply using the market for arbitrage. Dealers report an active January.

A large market, indeed, but not a very profitable one for the dealers. A simple piece of arithmetic is instructive. On the not-ungenerous assumption that dealers make an average $200 for placing $1m paper over a year – for 30-day paper, the dealer has to place it 12 times to make that much – a market with $70bn in outstanding paper yields an annual return for all dealers of $14m. Compared with the more than $300m in up-front fees alone to bank lenders participating in the buy-out financing for RJR-Nabisco, this is small beer.

Yet this has so far failed to bring about the widely-predicted withdrawal of intermediaries in the market, which would allegedly leave a handful of profitable firms. While the majority of the 40-odd members of the Eurocommercial Paper Association are hardly active, and perhaps half-a-dozen dealers dominate the market, 25 firms are dealers on more than 20 programmes and a dozen or more take an active role.

There are several reasons why the often self-serving prediction of a big dealer shake-out has failed to come about, despite the lack of profitability. The first is that it is often based on a false parallel with the US market, where an oligopoly of dealers, protected for 50 years by the legal exclusion of commercial banks from the business, has only recently been challenged.

Furthermore, many of the US commercial banks themselves – along with, for example, Japanese securities firms – are among those who see the ECP market as having strategic significance. The ECP can also help cement banking relationships with corporations, although this is being cited less often. The investor base for the market is more diverse than in the US, giving greater scope for so-called niche players, ploughing narrower geographical furrows.

Some also are seeking opportunities to "add value" by latching on swaps, options and the like to CP. Others see chances to make money in asset-backed commercial paper, though the growth of this market in Europe has been slower than many hoped, encouraging the view that ECP is a simple "vanilla" product.

Above all, many firms have rolled their ECP operation into another part of their business. Increasingly, ECP is viewed as one instrument among a spectrum of money-market instruments, providing opportunities for arbitrage, currency swaps and the like. As a result, the costs of a CP operation are part of a bigger pot, and it makes less sense to strip it out and close it down. Like the rest of the money market, commercial paper is a high-volume, low-margin business.

The low profitability has encouraged many dealers to turn to medium-term notes as potentially more profitable business. This continually-issued paper, with maturities theoretically up to 10 years, carries fees ranging from 10 to more than 60 basis points, depending on maturity – enough to make an ECP dealers' face light up. The product has posed the problem for many firms of where to place the desk: whether it should be regarded as part of the Eurobond operation (in which case problems often arise with origination) or as part of an ECP operation (where money-market investors are usually not interested in medium-term paper.)

There is still a wall of investor scepticism to overcome before the MTN market is accepted by investors in Europe – their worry seems to centre on their ability to sell the paper at a sensible price if they need to before maturity – and can hold a candle to its US counterpart. But the market more than doubled in size in 1988 to end the year at $5.65bn, and grew $700m in December alone, according to Euroclear, so 1989 has started on a positive note.

The strengthening of many domestic commercial paper markets was an important development over the last year, although it brings potential problems for issuers. For example, a significant proportion of US dollar paper is placed with Japanese investors after having been hedged into yen. The development of the yen market suggests that issuers' programmes may start to compete with each other.

The Bank of England gave a spur to the issuance of Ecu-denominated commercial paper with its Ecu Treasury Bill pro-

Continued on next page

COMMERCIAL PAPER 2

Paperspeak — a glossary of the terms they use

Arbitrage: The activity, theoretically of minimal risk, through which issuers, dealers or investors profit from exploiting differential yields. For instance, the treasurer of company X issues paper at 5 basis points (five-hundredths of the percentage point) above Libid (*see below*) and invests the proceeds in the paper of company Y, which yields Libid plus 15 basis points.

Definitive notes: Bearer promissory notes issued on special quality paper, often preprinted.

Global notes: Plain paper notes introduced as a low cost alternative to definitive notes, usually issued as evidence of trades with the same issue or maturity date.

Euronotes: Paper issued through a tender panel of firms which bid for notes, usually of certain maturities, from the issuer. In investor terms, Euronotes are often indistinguishable from ECP (*see below*). From the issuer point of view, tender panels tend to be larger than ECP dealer groups, and the ECP flexibility in terms of maturity for example is probably greater.

Eurocommercial paper (ECP): Short-term negotiable bearer instruments continually issued in the international markets in dollars, Ecu or yen. Prices are quoted on the basis of true money market yield as an annualised percentage. This is often compared to rates in the interbank market: Libor, Limean, Libid.

Hedged or swapped paper: Created where commercial paper in one currency is converted to an investment in another currency through simultaneous spot and forward foreign exchange contracts.

Issuing and Paying Agent: Responsible for the running of the operational aspects of a programme, for example, documentation, authentication, settlement and repayment on maturity.

Libor, Limean, Libid: London interbank offered, mean and bid rates — the rates at which banks offer or bid for funds in the interbank market, or the mean between those two levels. Used as a benchmark in the ECP market.

Medium-term notes: Continually-issued fixed-interest securities of longer than one-year in maturity. Can be viewed, depending on your position, as long-term commercial paper or as continuously-offered bonds.

Rating: An independent assessment, usually expressed in letters, of an issuer's ability, to honour the obligations on its securities.

Secondary market: Where paper is traded among dealers subsequent to issue. Except in the case of sovereign-risk paper, where there is an active market, dealers claim their placement is so firm that it hardly exists.

Settlement: The transfer of funds from buyer to seller and the payment of interest and principal to the investor at maturity.

Spread: The difference between the yield at which a dealer buys paper and the yield at which he sells it. This averages around 3 basis points in the ECP market, although there are attempts to introduce US-style commissions into Europe. In the US, this commission can be as much as ⅛ percentage point (12½ basis points).

Stephen Fidler

Eurocommercial paper, once a very distinct product, has lost much of its glamour

Playing chicken in the bargain basement

VIEWED from the dealers' desk, there is nothing particularly kind and gentle about the Eurocommercial paper market.

Cut-throat competition between dealers has been part and parcel of this market, so that banks excluded from a coveted dealership have sometimes telephoned the issuer to inform him that his paper is trading expensively in the secondary market.

At the same time, issuers are a more friendly lot, and information about poorly performing dealers is disseminated fast.

Competitive though it is, many other elements of Eurohype have gone out of the Eurocommercial paper market as it has matured, leaving dealers with a rather unglamorous money-market instrument — and a business that an inexplicably large number of people still seem keen to be in. The most pressing question for all is how to justify an operation that often barely covers its costs.

Whereas ECP used to be a very distinct product, many bankers have now positioned it squarely among other instruments on the money market desk. They deny that this move is to disguise the fact the product does not make much money.

Instead, the move enhances customer service. At Swiss Banking Corporation London, for instance, ECP is now sold off the treasury customer desk, alongside foreign exchange, bills, certificates of deposit and forward rate agreements.

Rupert Dent, an SBCL director, says that his sales force needs a "balance of specialisation", so that they can work in related markets and thus provide better advice.

Another technique at SBCL, which some other banks are beginning to adopt, is to organise staff so that they speak to a cross-section of both issuers and investors. This approach contrasts with the arrangement in the US domestic market, where a small number of executives buy all the paper, and a vast sales force pushes it out to investors. SBCL argues that its method allows each dealer to get a more accurate feel of what is going on on both sides.

The biggest problem the market faces is that of pricing

There are now enough ECP programmes outstanding for the larger houses to have become rather choosy about accepting new dealerships if they are to service their clients properly.

While a presence on too few programmes will leave dealers scrambling for paper to meet investor demand, an attempt to service too many will equally lead to an unwieldy operation.

As houses book close to 200 dealerships, they need to scrutinise their list narrowly. According to International Financing Review, Citicorp, SBCI, JP Morgan and Merrill Lynch, all have more than 160 ECP and ECD programmes.

Reviews — annual or more frequent — are now accepted practice among dealers, giving them the opportunity to discard "problem" programmes. Problems may be attributable to anything from personality clashes to an issuer whom the dealer contests consistently comes to the market at the "wrong price" — that is, too cheaply.

Another practice that banks dislike is issuers selling paper by quasi-auction, accepting the cheapest of several competitive bids. Practitioners argue that this affronts the concept of an investor-driven business. Certainly the US market does not function in this manner - there, issuers apportion discrete chunks to each dealer to work on separately.

Some dealers prove more choosy than others — those intent on building volume show considerable patience with the most demanding of borrowers. Others have the choice made for them — many issuers prefer a core team of two or three dealers who turn up investors consistently, and do not wish to spend time calling those who regularly fall short. The latter are on occasions discharged from their obligations.

Ashley Ashwood

At Swiss Banking Corporation London, where Eurocommercial paper is now sold off the treasury customer desk, Rupert Dent says his sales force needs a "balance of specialisation"

But the biggest problem the market faces currently is that of pricing. Whereas US CP commissions are of the order of 10 or 12 basis points, many dealers in London push ECP through their system for a fee of one basis point, and the more enthusiastic even broke the market free. JP Morgan estimates current outstandings at $74bn; assuming a one basis point spread, that leaves just $7.4m to spread around a market-place where at least 25 dealers have more than 20 programmes.

And stories abound of bargain basement pricing. A dealer on one infamous programme recalls bidding for one particular tranche and failing to secure paper. Half an hour later he was astonished to receive a call from another bank offering him paper from the self-same issue at a price considerably better than the unsuccessful one he had posted.

Some dealers argue that, in a volume business, they have to bolster their throughput at any cost. Others insist that spreads will have to widen if the market is to be viable in the long term.

Mr Trevor Bush, at Warburgs, warns: "Issuers who push dealers too hard in terms of price find that they reach a plateau in their outstandings beyond which they cannot progress." There is, he argues, a right, and a wrong, price for everyone's paper.

Optimistic dealers say they see prospects for fatter spreads; some even report evidence of marginally higher fees available during the last year.

Those with the largest number of programmes cling to the notion that both investors and issuers will pay a premium for access to a longer list of names.

Colin McKechnie, at JP Morgan, points out that his team talks to some 125 of his 178 issuers daily, and to at least double that number of investors. "That service is worth a basis point or two," he reckons. "If an investor calls two or three dealers our size, he has covered the market." There are currently some 700 programmes outstanding.

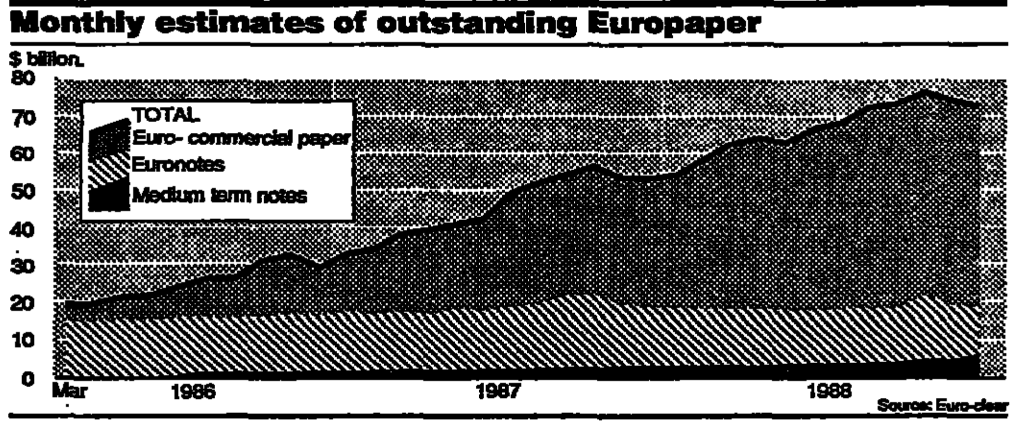
No one will admit thinking that they can make money from positioning CP — except perhaps in the sterling market, where some secondary trading has developed, fostered by the discount houses. On the whole, dealers insist that their duty to the issuer dictates that paper is placed firmly with end investors. Those running fairly sizable books justify the dimensions of their positions by pointing to the need for inventory to smooth market gaps.

A proportion of issuers exercise discipline anyway by demanding breakdowns of where the paper is held, and are described as "not polite" if the outstandings got lost *en route* to the end investor.

All in all, the dealer community seems to be involved in a rather costly game of chicken, as it waits to see who will dare to insist on the wider spreads they all so desperately need.

Katharine Campbell

Monthly estimates of outstanding Europaper



Source: Euro-clear

Top dealers in ECP & ECDs

	Institution	No. of dealerships
1	Citicorp	191
2	SBCI	185
3	JP Morgan	182
4	Merrill Lynch	180
5	Shearson Lehman	130
6	CSFB	128
7	SG Warburg	103
8	Chase	102
9	Morgan Stanley	83
10	Bankers Trust	65
11	First Chicago	61
12	UBS Sec	58
13	NatWest Cap Markets	49
14	BZW	45
15	BankAmerica Cap Mkt	42
16	Westpac	35
17	Enskilda Sec	33
18	Daiwa Sec	32
18	ManHan Trust	32
20	Goldman Sachs	29
21	ANZ	28
21	Nomura Sec	28
23	First Interstate	28
24	Midland Bank plc	23
25	Chemical	21

Source: International Financing Review

Hard going in London

Continued from previous page

gramme. Already borrowers such as Spain have been able to step up their Ecu issuance. As yet, much of this paper appears to be heading for a friendly cartel of central banks and parastatal organisations such as the European Investment Bank. Nevertheless, along with the growth of the Japanese market, the Ecu market could be significant in opening up the possibility of a global multi-currency market in commercial paper.

Europe's MTN market is starting to grow, but . . .

Volumes fail to reflect dealer effort

Top dealers in medium-term notes

	Institution	No. of dealerships
1	Merrill Lynch	36
2	CSFB	25
3	SG Warburg	21
4	SBCI	19
5	Salomon Brothers	18
6	Morgan Stanley	15
6	Shearson Lehman	15
8	JP Morgan	11
9	Citicorp	9
10	First Chicago	7
11	Chase	6
12	Enskilda Sec	5
12	Goldman Sachs	5
14	Bankers Trust	4
14	UBS Sec	4
16	First Interstate	3
17	ANZ	2
17	Midland Bank plc	2
17	Morgan Grenfell	2
17	NatWest Cap Markets	2
17	Yamaichi Sec	2

Source: International Financing Review

IF WISHING were sufficient, 1989 would certainly be the year of the medium-term note in the international market.

Dealers in Europe cast their eyes enviously across the Atlantic, to where the market in medium-term notes – continually-issued securities with maturities of longer than a year – has grown to $75bn.

In Europe, by contrast, the size of the market is relatively small. In the words of one dealer: "It's not yet at critical mass."

According to figures from Euroclear, the market in Euro-medium term notes grew to $5.65bn at the end of last year from $2.57bn a year earlier.

Considering that, at the end of 1986, a mere $359m was outstanding, growth has been significant; yet many of the market's proponents admit to disappointment over volumes, particularly in view of the strenuous marketing efforts of many dealers.

Some of the market's difficulties reflect – and are in some cases are greater than – those in the Eurocommercial paper market. Given that European investors are not generally natural investors in dollars, worry about the US currency's potential weakness deters them from both markets, but in particular from longer-term securities.

Concern about the dollar, of course, does not bother US investors directly; but, in the international market, it means that many investors are interested only when there are attractive currency swap opportunities. As a result, they offer only spasmodic support to the market.

Partly related to worries about dollar weakness, the US has also provided lower yields

The main limiting factor is investor scepticism about liquidity

for those borrowers with access to both markets, just as the US commercial paper market has proved significantly more attractive to issuers than its Euro-counterpart.

Of course, the Eurobond market itself is potentially prey to the same problems when the dollar looks weak. Yet in 1988 the new-issue market had its second-best year, with something like $170bn raised in new bond issues. While it is natural that adverse circumstances will hit an emerging market harder than an established one, it is also obvious that not everything has been satisfactory in the medium-term note market.

The main limiting factor, as most dealers will admit, is investor scepticism about liquidity, their ability to sell the paper at a competitive price. Liquidity has been a big issue among institutional investors in the Eurobond market, which has proved itself sensitive to demand for bigger, more liquid issues. Because medium-term notes are issued in small chunks, liquidity cannot exist in the sense that it does in many bond markets.

In theory, the dealer that places the notes is supposed to provide that liquidity. Dealers say that it is the prospect of developing a poor reputation with investors that keeps their prices honest.

They also point out that the Eurobond market's public relations may have been overdone – that a liquid, actively-traded Eurobond issue is the exception even these days, rather than the rule. But – whether from experience or natural scepticism – it seems that investors are not yet convinced that they will be able to unwind their position in MTNs if they need to.

A further problem – which seems to defy an ideal solution – may also have limited the market's growth. It has arisen because many, at firms, the medium-term note business has grown up out of the Eurocommercial paper department. Yet, except at the shorter end of the MTN market, investors in MTNs are a different breed from the corporations and money-market investors who support the ECP market. ECP is essentially a liquidity management tool, while MTNs are not.

However, if the MTN department is moved into the Eurobond operation, then some dealers have found that origination suffers. Eurobond departments do not have the experience in continual origination of their ECP counterparts.

For certain borrowers the medium-term note market offers significant potential

Despite these difficulties, it is not unnatural that dealers remain interested in medium-term notes, since, at least by comparison with commercial paper, it is a very profitable business. With annual returns on ECP averaging 1-to-2 basis points, it means that placing $10m of paper for a year will yield $1,000 to $2,000. If the paper is of 30-day maturity, it has to be placed 12 times to earn that much.

Medium-term notes enjoy significantly better returns, with front-end fees ranging from 10 to more than 60 basis points – $10,000 to $60,000 for placing $10m of notes.

Apart from the General Motors Acceptance Corporation, which has provided backbone for the market almost since its inception, most of the important issuers in the market are sovereign names, such as Belgium or Spain. Again, as in the Eurocommercial paper market, the fact that central banks – an investor group not active in the US – buy much of this paper means that borrowers find yields competitive with the American market.

Some dealers at commercial banks – such as Mr Michael Niedzwiecki, of Citicorp – believe there is untapped potential in medium-term notes, with the placement of MTNs, perhaps swapped, into the portfolios of the type of investors who take sub-participations in the syndicated loan market. Such investors would presumably be willing to forego some credit quality in order to be able to pick up extra yield. The type of issuer likely to provide the necessary yield – usually carrying less than a top rating – would not normally find the US MTN market an attractive alternative.

There is no doubt that, for those borrowers with the ability to tailor their issues of medium-term notes around investor maturity needs, the medium-term note market offers significant potential.

There is no doubt, either, that dealers feel much the same way, and they may well be cheered by the late-year fillip in the market – it grew by $700m in December. It now remains for investors to be convinced. A stronger dollar would help, too.

Stephen Fidler

The Eurocommercial Paper Association faces internal criticism

The game's top players may have outrun their rulemaker

THE Eurocommercial Paper Association (ECPA) is currently going through something of a crisis.

Originally established as the Euronote Association in April 1986, to regulate the fast-growing Euronote and Eurocommercial paper markets, today its rules and guidelines are increasingly under fire for bearing little relation to current market practices.

Its critics – all of whom are members of the association – say that the transformation of the market between 1986-1987 from a traded to an almost exclusively placement business has made most of the ECPA's rules redundant, and removed many of the important and contentious issues which it was originally set up to tackle.

The fact that the secondary market in ECP has become a sideshow to the more important business of placing paper with end-investors helped to create the central dilemma which the association faces, and appears unable to resolve

To some, the Klockner saga proved how isolated the ECPA has become from the ECP market's workings

– this is the question of the role of the secondary market in ECP and the willingness, or lack of it, of dealers to quote realistic two-way prices in ECP when requested by investors or other market makers.

The problems associated last October with the troubled West German trading company Klockner – when dealers refused to buy Klockner paper from worried holders – illustrated how belief in a traded market has been undermined by changing market practices. To some in the business, the Klockner saga also proved how isolated the ECPA has become from the daily workings of the ECP market.

When confronted with the refusals of its members to deal in Klockner paper, the ECPA's response was to justify what happened on the grounds that it represented a "change in material circumstances" to the company (Klockner) which gave the dealing banks the right not to take on the paper.

The secretary of the association, Michael Anderson of First Chicago, makes no apology for the stand taken by the ECPA. Ultimately the commercial rights of the dealing house will take precedence over the demands of the investor, he says. "Nothing can be imposed that takes away from institutions the right to make their own internal credit decisions. The guidelines the association sets reflect this reality." In essence, if dealers do not want to trade they do not have to.

Yet this argument runs counter to the association's own handbook which, in the latest issue (December 1988), under the section headed "Rules for Market Makers", categorically states that market makers are "required to make markets to any counterparty whose credit is approved . . . will make competitive spreads at all times . . . [and] are required to make a two-way market if they own stock."

Among the many who believe that these rules do not tally with market practice is Bill Sullivan, commercial paper trader with Chase Manhattan. He believes the rules are "irrelevant", because in an investor-driven market there is no obligation for market makers to deal with each other. "Our job is to facilitate the issuance of paper from issuer to investor," says Mr Sullivan simply. "Our responsibilities as dealers are first to the investor, second to the issuer, and third to the market."

Mr Michael Anderson: 'The guidelines the association sets reflect a reality'

The ECPA, however, is aware of these discrepancies, and plans to reform its rules sometime in the next few months. Mr Anderson promises that they will "reflect the fundamental workings of the market." Yet, because the association has no powers to impose its rules, abridged or otherwise, on its members, there appears little point in laying down new regulations.

This is something accepted by the ECPA's chairman, David Dobell – who admits that the association's rules are, to a great extent, academic. "Our job is to set a code of practice which we expect members to abide by – but we have no formal sanctions to enforce it."

So where does that leave the association? Members say that it serves a useful purpose as a forum for discussing the issues and problems facing the market.

The ECPA is aware of discrepancies, and plans to reform its rules some time in the next few months

Yet the recent decision to change the regularity of its regular meetings – from one every month to one every two months – might be seen as proof of how the members are losing faith in the association. One trader said that the frequency of meetings had been changed because of "lack of interest".

Suggestions that the ECPA has a role as an arbiter between disputing members have yet to be tested, and are greeted with scepticism by some dealers, who claim the association lacks the credibility to settle such disputes. And, as one ECP dealer pointed out, with so little inter-dealer business left in the market, disputes are few and far between.

The ECPA does act as an informal pressure group for the market, particularly where the Bank of England is involved.

"The association gathers together the views, opinions and market practices of its 40-odd members engaged in the ECP business and presents them to the Bank of England, which it visits three or four times a year," explains Mr Dobell. The association has no statutory powers invested in it by the Bank, but it does have its full support.

The feeling remains, however, that the ECPA's position is being undermined by the changing face of the ECP market. The association is made up of over 40 houses, yet as much as 90 per cent of the business is dominated by barely half a dozen members. Some of these major players, said one influential dealer, only go to meetings to pay "lip service" to the idea of a representative body.

"When you are a leading house, why should you be a member of an association which is only there to help the 30 or so small members who make up so little of the market?" asked the dealer. He believes the ECPA only benefits the smaller players who go to the meetings to pick up information from other participants and find out what affects the business of the eight houses that dominate the market.

The dealer would like to see the association's membership whittled down to just the top eight or 10 market players – a suggestion which the association regards as unfair, saying that the smaller members – who are often valuable niche players in the market – have as much right to voice their opinions as the big players.

Yet, even David Dobell admits that the ECPA's days could be numbered, and the departing chairman (he will not stand for re-election this month) issues a sombre warning about the association's future: "There are likely to be fewer rather than more participants in the ECP market as time goes on, and eventually a formal association may be seen to have outgrown its usefulness."

Patrick Harverson

HEDGING

Forex swaps may be tailing off

MOST Eurocommercial paper is still issued in dollars, while investors are rather more catholic in their currency tastes. This basic imbalance, combined with the fact that dollar ECP frequently offers a cost advantage to non-dollar based issuers, means that forward foreign-exchange swaps have become an integral part of the ECP market.

Eliminating CP currency risk is straightforward, even if the resulting package is not always ideally flexible. A yen-based investor, for instance, can purchase Eurodollar commercial paper, yet, via a traditional forward foreign exchange swap, effectively keep his investment in yen.

His only worry is that, should he wish to sell the commercial paper back before maturity, he is left with a forward contract to unwind. While interest rates have moved in his favour, the exchange rate may not. Undoing the swap is cumbersome and costly.

Issuers, equally, may wish to effect swaps. A Canadian borrower, for example, could tap relatively liquid ECP dollar funds, and swap the proceeds into his domestic currency via forwards. If the forwards prove expensive, he will obviously opt for alternative funding sources.

It is the dealers' job to monitor swap rates continuously, looking for yield enhancement for investors, or savings for borrowers. A sterling issuer will want to know whether bankers' acceptances, sterling CP, or dollar CP swapped into pounds, offers the cheapest source of funds. The more sophisticated issuer will unbundle the package, and shop around for foreign-exchange forward rates as well as for the commercial paper component.

No statistics are available to determine what proportion of the total market is swapped, and different dealers record widely divergent figures, according to the currency preference of their investor and issuer base. While some see the majority of paper swapped, others swap only the odd issue.

Currency protection is, on the whole, more common on the investor side; with the yen, Deutsche Mark, pound and Swiss franc, unsurprisingly, the most frequent end-destinations.

But although the existence of foreign-exchange swaps did much to foster the growth of the ECP market 18 months or so ago when dollar weakness deterred investors, there are signs that the proportion of swapped paper is tailing off slightly.

Mr Gordon Kerr, at Bankers Trust, notes that investors have grown in sophistication, and will choose between a wide range of short-term currency investments. Some hint that ECP is not high up the list. But as long as non-dollar denominated ECP is relatively restricted, forward swaps will retain considerable importance.

The concept may be simple, but the practice can be trickier. Matching issuer and investor requirements in this market is a precarious juggling act at the best of times; but add in the vagaries of the forward market, and congruence can prove elusive. Opportunities come and go quickly, particularly as foreign exchange prices typically alter faster than interbank deposit rates.

The foreign-exchange swap, moreover, is tricky to unwind, should the investor require to put his paper back to the market. That is why Bankers Trust developed the dual currency feature, dubbed Deuce, which was attached to the $1bn programme arranged for Svenska Exportkredit.

Mr Kerr characterises the conventional forward as "totally illiquid and personalised" in the context of ECP, and explains the Deuce was designed to address this problem. The idea is that the investor endorses the dollar note issued by SEK in the currency of his preference, and that note is then tradable back before it matures.

SEK is sufficiently pleased with the results to be discussing extending the dual currency feature among the other three dealers on the programme, though he admits that the vast proportion of investors still hold the paper to maturity at this stage. Deuce, of course, is as dependent on favourable swap rates as the simple forward.

It is the dealers' job to monitor swap rates continuously

Even the conventional swap sales have their detractors. Trevor Bush, at Warburg, cautions that they can "tempt dealers to sell companies' paper at the 'wrong rate'." He argues that if favourable swaps points allow the investor a yield pick-up of two or three points above the rate in relation to Libor, at which the company usually issues, investors may get used to richer rates, which can jeopardise the price on the company's paper next time round.

As Mr Bush notes: "Everyone talks to the same investors. For a while, those dealers using the swap will place all the business. But what happens when the swap does not work?"

A rather different product that is being used in managing CP programmes is the forward rate agreement (FRA), a contract that confers interest rate protection for a specified period in the future. Although one or two large commercial banks dismissed the technique, because it was sold from a different desk, many institutions, aware that their sales of disparate products lack coherence, have been actively looking for useful links between money market products.

The purpose of FRAs in this context is to give issuers flexibility as to when they tap the market. Suppose a corporate treasurer wishes to raise six-month money, but can find no takers at the price he has set himself. Ordinarily, he would resort to an alternative source of funds, such as bank borrowings, rather than distort the price at which he can regularly come to CP investors.

However, if he raises three month CP funds, he can at the same time buy an FRA for "3s against 6s", meaning that he purchases three-month protection in three months' time. The only drawback is that he is again reliant on finding suitable funding at the end of the period.

Some bankers have been attempting to combine other treasury products with CP to produce packages in both the interest-rate and currency field, though nothing terribly attractive has emerged to date.

Perhaps the most daring combination is the programme Nomura arranged for SEK, which was dubbed "Miracle". While SEK's proceeds remain in dollars, investors can purchase yen paper, which is tied to the futures price on the Japanese government bond traded in Tokyo.

SEK, for example, has issued some $2.7bn worth of paper since the launch last summer. He is happy, because he regularly achieves a rate of 22 basis points below Libid, which compares with a cost of funds of libid less ¼ on his other multi-currency ECP programme. The only snag from his standpoint is that Nomura arranges the issues in tranches, according to investor demand, so his access to the market is restricted in that sense.

Investors, in turn, effectively bet on the direction of JGB futures; and the structure, which has not been publicised, allows them to buy or sell the market, or alternatively take out a straddle if they think bond prices are becalmed.

Other dealers have worked on products that look more like a genuine hedge. Possible alternatives include a Libor reset, a hybrid product that allows borrowers to set their rate at the end rather than at the beginning of the period. Longer CP programmes, of a year or more, could have interest-rate caps or floors attached, so that the issuer could put a ceiling on the rates he paid across a series of rollovers, or conversely so that investors could lock in a minimum yield over a number of issuers.

The most obvious application of derivatives is in the area of foreign currency options. Whereas a forward locks the purchaser into a fixed return, an option confers, at a price, the possibility of a currency appreciation.

But in most of these cases, ECP maturities are simply too short for such flourishes of financial engineering. Option premiums, which are generally quite high, would need to be well disguised to tempt investors buying an option.

And only pretty sophisticated participants would be prepared to take in premium by writing an option, and hence running the risk that it would be exercised against them.

Katharine Campbell

ASSET-BACKED CP

Europe bides its time as new rules spur US

DESPITE A variety of brave European efforts at innovation over the past year, asset-backed commercial paper remains largely an American affair – American borrowers securitising American assets for sale to Americans through American dealers.

Several deals announced with much fanfare in Europe last year took months to launch, with progress hindered by lenders and rating agencies alike.

For instance, in February 1988, Morgan Guaranty announced a $350m Euro-CP programme for Mortgage Asset Eurosecurities (MAES), a special-purpose company set up to fund mortgages generated by CIBC Mortgage.

The deal was signed more than eight months after launch, after painstaking efforts to meet the sometimes conflicting requirements for a top-flight credit rating from both of the two major rating agencies.

In a similar vein, a £200m programme for United Mortgage Corp, an off-balance sheet unit of the Leamington Spa Building Society, also took months to arrange. Banque Paribas, arranger of the programme, was forced to provide a £20m bridging loan to allow the programme to swing into action, because banks balked at the unusual structure.

Mr Donald Selzer, a senior analyst at Moody's Investors Service, explained that many issuers avoid asset backed Euro-CP because there are simply cheaper means of raising short-term funds.

"By the time you build in all the protections that you need, it is simply not economical," he said.

Furthermore, issuing Euro-CP of any sort is more expensive than issuing its US counterpart, simply because US paper is pegged to the Fed funds rate while Euro-CP is pegged to Libor.

Still, securities houses say that asset-backed commercial paper in the European market is just a matter of time, and point to the increase in both the number and variety of programmes over the past year. "In general, Europe is just waking up to securitisation," said Mr Craig Goldberg, head of the asset-backed CP programme for Merrill Lynch.

But in the US, asset-backed CP is big business, which has grown even bigger in 1988. The primary motivation for the growth in the market has been the introduction of new rules on bank capital adequacy by the Bank for International Settlements. Taking assets off-balance sheet, therefore, has become a much more attractive proposition.

Indeed, Mr Goldberg said, the primary issuers of asset-backed CP in the US are the off-balance sheet funding vehicles of US banks.

While US institutions have issued billions of dollars in long- and medium-term securities backed by mortgages, the sort of receivables backed by commercial paper are short term, some with maturities of no longer than 30 days.

Foremost among these projects is Citicorp's Corporate Asset Funding Corp (Cafco), which now has about $3.5bn in assets, and a near-equivalent amount of commercial paper outstanding. Cafco's assets are actually an interest in a pool of receivables from various major US corporations, such as DuPont Chemical.

Securities houses say asset-backed paper in Europe is just a matter of time, and point to the increase in the number and variety of programmes

A look at the structure of Cafco illustrates why there have been so few "copycat" programmes. Indeed, it was not until mid-1988, after the introduction of the BIS guidelines, that a single US bank decided to follow Citicorp's example.

"Margins are thin and there's a lot of overhead," said one a corporate finance official at one US firm. "Formerly the banks funded these assets on their own balance sheets. Now, with the capital adequacy rules, they're taking the assets off-balance sheet."

But within the past few months, Continental Illinois has issued $250m in CP through its Receivables Purchase Corp, while Chase Manhattan has set up a similarly structured deal for Chase Investment Bank. That programme, known as Eagle Funding Corp, issues paper backed by Chase's European trade receivables.

Cafco's assets are backed up with a liquidity line from Citicorp, which guarantees investors that there will always be funds available to redeem maturing paper. There is also a letter of credit – also provided initially by Citicorp – which is intended to cover non-payment on assets themselves.

Rating agencies have required the letters of credit to cover fully 100 per cent of the assets in order for securities to qualify for the top-flight rating – a requirement that has proved a particular stumbling block for those assembling asset-backed Euro-CP. European banks have not traditionally provided such credit enhancements and are reluctant to begin doing so now.

While several US houses are pressuring the rating agencies to relax their criteria, Citicorp is said to have ceased providing its own letter of credit for Cafco. It seems the new capital adequacy requirements have raised the cost of providing that credit internally, and a new bank has had to be found.

However, non-financial institutions have found that there may be benefits from issuing asset-backed CP. But these have largely been corporations with sub-investment grade credit ratings of their own. "Any corporation rated single a or better will be able to finance more cheaply by keeping the assets on their balance sheet," said an official at one US house.

One recent innovation was a $70m asset-backed CP programme for Health Care International, which issued securities backed by its hospital receivables. Because much of hospital bills in the US is paid for by third parties – private insurers or the Government – credit rating agencies required that a letter of credit be provided for only 6 per cent of all receivables, a far less expensive proposition than Cafco's 100 per cent insurance.

Health Care International's off-balance sheet finance corporation was structured so that its securities received a higher credit rating than that of its parent. The cost savings on the commercial paper is sufficient to offset the expense of establishing the subsidiary, said arranger Merrill Lynch.

A similar structure has been tried in Europe by Credit Suisse First Boston for BB-rated Union Carbide. A special purpose company, called Bifin Ltd, has been established to issue CP backed by the company's European receivables. The $100m programme carries Moody's Investors Service's top P-1 rating, but only because of an irrevocable direct-pay letter of credit from Credit Suisse.

Investors are exposing themselves to the credit of the bank, rather than that of Union Carbide. However, the top-flight credit rating enables the borrower to achieve borrowing rates below those that Union Carbide would be able to achieve on its own.

Norma Cohen

The US: repeal of Glass-Steagall does not look imminent, reports **Karen Zagor**

The banks look to Mr Greenspan

AS FAR as the US commercial paper market is concerned, 1988 will go down as the year in which Congress failed to repeal the Glass-Steagall Act.

The banks still have their hands tied, albeit loosely, by the terms of the 1933 Act which mandates the separation of investment and commercial banking functions. This has, until recently, given the security houses a virtual monopoly of the rapidly expanding US commercial paper business.

At present the banks are unfettered in their dealing in the European CP market, but may deal in CP in the US only through their subsidiaries, which may also underwrite mortgage-backed securities, municipal revenue bonds and securities backed by various debts.

What US debt business these bank subsidiaries do is strictly limited to 5 per cent of their gross revenue. The only alternative for banks wishing to be involved in CP is to function as an agent rather than a main player. Japan is the only other country to place such restrictions on its domestic banks.

Many thought that 1988, the year of the 100th Congress, would finally see the end of Glass-Steagall. Senators Jake Garn and William Proxmire lobbied long and hard in the Senate, and victory seemed within sight when, on March 30, a banking bill that would effectively have repealed Glass-Steagall was passed on the Senate floor by a majority of 94-2.

But the bill was then thwarted in the House, where it was stalled in two committies for the rest of the session. With a new administration and new and more pressing concerns, such as the troubled thrift sector, it is highly unlikely that Congress will give priority to the repeal of Glass-Steagall in 1989.

However, the banks have not exhausted their options yet. They are now looking to to the Federal Reserve, and in particular to Mr Alan Greenspan, chairman of the Fed and an avowed proponent of deregulation. The board is known to favour deregulation, not least because it feels US banks must be allowed to compete on equal terms with their overseas counterparts.

There is some precedent for the Federal Reserve's creating policy in the absence of legislation. It was a Fed ruling in April 1987 which gave banks their authority to trade in commercial paper. At the time the Securities Industry Association (SIA), which strongly opposes Glass-Steagall reform, unsuccessfully appealed against the decision.

Most recently, in January of this year, the Fed approved an application by Bankers Trust, Chase Manhattan, Citicorp, JP Morgan and Security Pacific for powers to underwrite and trade a limited amount of corporate debt.

While this had no immediate impact on commercial paper, it was widely seen as a step along the road to deregulation. The Fed's decision, however, was no more than had been expected for some time, prompting some analysts see it as an indication that the Fed will not act alone on bank deregulation, preferring Congress to take responsibility for banking legislation.

One factor which may speed Congressional action is the inroads that the Japanese are making into the US financial markets. This may trigger the reform permitting the US banks to compete in the domestic debt market, some feel.

The securities houses feel threatened by the entry of commercial banks into the CP arena, in part because of the greater capital which the banks can command, and in part because some clients are attracted to banks as issuers due to their superior distribution capability.

Now that the banks have some access to the relatively mature and stable commercial paper business, they seem content to wait out the deregulation storm, and are mainly concerned with increasing their powers in the corporate equities area. Commercial paper does not produce the huge profits that are to be had in the riskier sectors of the debt market. Profits in CP are generally in the five-to-10 basis points range.

Meanwhile, 1988 was another year of growth for the US CP business. The amount of commercial paper outstanding stood at $441bn in November, compared with $354bn a year earlier. This represents a record $16.5bn increase on a seasonally adjusted basis. The increase was the ninth in the year, and surpassed the previous record increase of $15.2bn in April.

Directly placed financial company paper accounted for the majority of the month's increase with a jump of $9.2bn to $192.2bn. Total financial company paper, aided by the increase in the placed paper, increased $15bn to a record level of $337bn.

Most market-watchers believe that the CP business in the US will continue at a similar level of growth in 1989, provided that it is not shaken by failed leveraged buyouts (LBOs). The recent boom in mergers and acquisitions has proved a mixed blessing for the CP business. On the one hand, companies involved in takeovers tend to borrow short-term funds through commercial paper programmes to tide them over, and then wait until things have settled down before borrowing longer term funds through the bond or equity market. On the other hand, the wide use of CPs in LBOs leaves the commercial paper issuers vulnerable should the LBOs fail.

Over the years, the players in CP have changed little. Among the securities houses, Merrill Lynch is generally considered to be the biggest in commercial paper, followed by Goldman Sachs, Shearson Lehman and First Boston. Of the banks, Bankers Trust, JP Morgan, Citicorp Chase Manhattan and Bank of America are among the more important.

The only recent attrition came when Paine Webber sold its CP business to CitiCorp. In 1987 Salomon Brothers, formerly one of the largest in CPs, pulled out of the business.

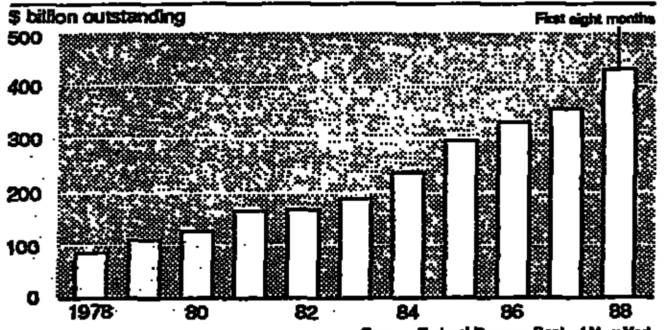
Commercial paper outstanding ($m)

	All issuers	Total financial	Total non-financial	Total bank-related
Jan 1986	297,704	212,097	85,607	38,828
Feb	297,423	213,509	83,833	38,423
Mar	298,615	218,472	80,143	38,361
Apr	300,309	221,789	78,520	39,355
May	310,364	230,276	80,088	40,584
June	314,598	234,938	79,660	41,715
July	313,976	232,718	81,258	40,838
Aug	322,648	239,498	83,150	42,204
Sept	326,967	243,295	83,672	39,435
Oct	329,955	244,066	85,889	41,129
Nov	326,536	243,300	83,236	41,241
Dec	325,948	252,899	73,049	43,125
Jan 1987	333,719	257,734	75,985	43,370
Feb	337,325	263,186	74,139	47,898
Mar	337,133	262,702	74,431	48,749
Apr	349,763	269,578	80,185	50,912
May	355,445	276,216	79,229	50,830
June	351,253	272,186	79,067	50,293
July	347,421	268,049	79,372	48,665
Aug	347,916	270,454	77,462	47,891
Sept	360,174	280,848	79,326	49,380
Oct	361,123	279,956	81,167	49,937
Nov	354,012	273,760	80,252	47,246
Dec	352,915	275,907	77,008	44,601
Jan 1988	379,192	292,326	86,866	47,085
Feb	389,156	297,962	91,194	45,711
Mar	388,492	302,755	85,737	45,052
Apr	409,497	316,061	93,436	46,796
May	415,492	324,985	90,507	48,357
June	415,125	324,953	90,172	46,022
July	419,003	327,959	91,044	45,518
Aug	422,090	331,754	90,336	47,135
Sept	425,104	332,630	92,474	44,788
Oct	429,549	332,513	97,036	43,044
Nov	442,396	344,544	97,852	44,724

Research: Rivka Nachoma

Senators William Proxmire (left) and Jake Garn lobbied long and hard in the Senate, only to be thwarted in the House

How the market has grown in the past decade



Source: Federal Reserve Bank of New York

JAPAN

A strict upbringing

JAPAN's commercial paper market is barely a year old. In the tradition of new markets in Japan, until the end of last year it was kept well-swaddled by the authorities. The Ministry of Finance is always over-protective of its new offspring.

The ministry was stricter than usual with the commercial paper market, because it pitted banks and securities houses against each other. That is usually prevented by the legal separation of commercial and investment banking under Article 65, Japan's clone of America's Glass-Steagall Act, though the barriers between the two are increasingly breaking down. Being a sort of securitised overdraft issued by companies to raise short-term funds, the opening of the CP market broke the commercial banks' grip on short-term financing.

Now that the infant market is a toddler, the ministry is easing up. Partly, that is because it has grown more lustily than was expected when it opened in November 1987. At the end of November 1988, commercial paper in circulation was worth Y8.25 trillion (million million).

Partly it is because of a broader sweep of deregulation of Japan's stunted short-term money markets. In order to re-establish its control over monetary policy through open-market operations, the Bank of Japan is encouraging the creation of new instruments to give the short-term money markets breadth and depth. Later this year, the central bank plans to use commercial paper in its market operations to guide short-term interest rates.

For the first year of the CP market's existence, issuers were restricted to some 180 of the bluest of blue-chip companies. Only companies that qualified to issue unsecured straight bonds were allowed to issue yen commercial paper. There was no system of rating the credit-worthiness of issues, as is the standard practice for commercial paper issues in the US.

In December 1988 the finance ministry changed the rules aimed at more than doubling the pool of potential issuers. About 450 companies now qualify. It introduced a rating system to decide issuers, and what percentage of any issue needs to be backed by a line of bank credit (to cover maturing notes in case new notes cannot by issued to replace them).

An issuer is now required to get ratings from two agencies for a new issue. From at least one of them, the issuer must get a top rating on the Japanese measure, or a second highest rating if the company's net capital exceeds Y55bn. Forty companies are exempt from collateral requirements altogether.

The commercial banks have long resisted the ministry's introduction of bond ratings, because the banks felt it would undermine their traditional role as arbiters of credit risk. The embryonic use of ratings for commercial paper is a sign that a fully fledged rating system for unsecured bonds is at last on the way.

Under the new commercial-paper rules, the finance ministry has also enlarged the range of allowable maturities from the present one – to six months, to two-weeks, to nine months. A ban on foreign-currency commercial paper issues has been lifted. Foreign subsidiaries of Japanese companies, foreign governments and international agencies are now free to issue domestic yen commercial paper. The regulations for issuing Euroyen commercial paper have are also being eased.

To help absorb the expected increase in issues, investment trusts will be allowed to invest up to 20 per cent of their net assets in commercial paper, against 10 per cent now. Only institutional investors are allowed to buy commercial paper.

The banks have stopped the CP market being deregulated further this time round, because it has not been easy going for them. Securities companies have been underwriting commercial paper at low interest rates to attack the banks' loans and bills businesses, safe in the knowledge that they could always stuff their investment trusts with the low-yielding paper if institutional investors did not want it.

This encouraged some companies to issue commercial paper and then reinvest the proceeds at higher rates of interest in other financial instruments, often those offered by the commercial banks. The rate on three-months commercial paper is about half of one percentage point lower than that on a three-months certificate of deposit.

Japan's biggest trading houses have been at the forefront of such zaitech, or financial engineering, as corporate asset management is called in Japan. By the end of last year, the seven leading trading houses had issued Y5.4 trillion-worth of commercial paper. Mitsubishi, Sumitomo and Hanwa, a steel-products trader with a reputation as an aggressive zaitecher, have each issued more than Y1 trillion-worth.

The securities companies only half-heartedly welcomed the revision of the rules for the CP market. They were pleased that the number of issuers was being expanded and the conditions of issuance made more lenient. But they complained that the changes favoured the banks overall.

They have reservations about the central bank's plans for using commercial paper in its open market operations, because it might hurt the securities houses' repurchase market business. They were also disappointed not to be allowed to issue commercial paper themselves, though their financial subsidiaries may.

The banks were predictably happy that they had delayed further deregulation of the commercial-paper market, and thus the further erosion of their lending business, at a time when they have still not been able to break into the securities companies' monopoly of corporate bond underwriting. The banks are due to introduce a new short-term prime rate for their corporate customers this spring, which will make bank loans more expensive for small and medium sized firms – and alternative sources of funds, such as commercial paper, more attractive.

The banks have already given up on making loans to large Japanese companies, from whom they are now on the whole takers of funds. But they do not want their new customers for loans, small and medium-sized companies, to have a freer hand to issue commercial paper until the banks themselves have been let deeper into the securities business.

James Andrews

Sterling CP has seen a year's steady, but unexciting, growth

Dealers await a call from BT

FOR THE past few months, British Telecom has been the talk of the sterling commercial paper market. Not, that is, because the company has launched a programme, but precisely because it has not.

The issue that dealers would probably most like to see give the market a fillip has still not materialised. Given the aggressive rates the company would undoubtedly command, investors, on the other hand, can only respond with a crocodile tear.

The ubiquity of the BT name reflects, among other things, an absence of much else to discuss in a market that has achieved steady, but unexciting, growth over the past year.

According to Bank of England figures, outstandings at the end of November amounted to almost £4bn, roughly double the figure 12 months previously, but a tiny proportion of overall Eurocommercial paper outstandings. About 40 new issuers came to the market, bringing the total number of programmes to around 165.

Dealerships remain firmly the preserve of UK banks, with Barclays de Zoete Wedd, NatWest Capital Markets, Morgan Grenfell and Midland occupying the top four slots in terms of total dealerships signed.

In at least one important sense, though, the market has matured. The proportion of paper held by the monetary sector has dropped sharply. At times as high as 38 per cent of outstandings, the figure is now closer to 12 per cent.

This suggests that the quest for the end investor has not been fruitless. Moreover, Mr John Neary at Midland Montagu reckons his team has been successful in widening the investor base as well, bringing in insurance companies and pension funds in addition to staple corporate investors.

"A year ago we were probably selling between 8 and 10 per cent of our paper to institutions; now the figure would be closer to 25 per cent, even though the market has almost doubled in that period." This matters, because institutional cash requirements are much more stable than corporate cash piles.

Still, the market's growth is currently constrained by a number of factors. Issuer restrictions are stringent; the Bank of England specifies that issuers must have a stock exchange listing in London, and a net worth in excess of £50m.

John Neary: a wider base

Edward Jewson: two aspects

Moreover, many companies that fulfil these requirements have access to the large and well-established commercial bill market, where they can often access funds at a cheaper rate. At the end of last year, the differential in favour of bills was as high as 90 basis points, and even acceptance commissions at $\frac{1}{16}$ per cent hardly impair the relative attractiveness of bills.

Small though it is, compared with the overall Eurocommercial paper market, the sterling area has developed some characteristics of its own. Whereas the merits of end investor placement versus a traded market was redundant in ECP some while ago, the development of a secondary market in sterling paper has become a live issue over the past year.

It is the advent of the discount houses, bringing a different perspective, that has injected a degree of controversy into the debate. According to Cater Allen, involved in the market actively since October 1987: "It is a solecism that there should exist a 'market' which does not trade."

Edward Jewson, a Cater Allen director, maintains: "There are two aspects to this market, in our view: buying as an end holder, and trading paper to sell to customers who are end holders."

But to the banks, the discount houses are very much the black sheep of the family. They are "fair-weather friends" who will pitch their prices at a level which reflects more accurately their view of interest rate trends than a credit judgment.

Says John Neary, at Midland: "If they think interest rates are going down, they may bid for paper below its 'correct' level. Equally, if rates move up, they will often be prepared to sell the paper - at any price." Thus issuers can lose control over the placement of their paper, and end up being forced to pay more to investors when they next access the market.

The discount houses deny all this, making the case that a secondary market does not harm pricing in sterling certificates of deposit, Eurobonds or UK government bonds. They say enhanced liquidity helped issuers in a tough environment last year, where base rates have risen 5¼ percentage points since June.

Investors can from time to time pick up quite generous yields in the secondary market that are not available in the primary sector. Mr David Harrison, at BT, may be holding his fire as an issuer, but he has invested in sterling CP for some time.

He hardly ever takes paper below Libid, and yet is restricted to issuers that carry the top A1-P1 rating. He admits that there is "not much left" in this category, but he does add: "There is a fair amount I can pick up in the secondary market at sufficiently attractive rates."

As an issuer, Kevin Green, at Unilever, is perhaps a little unusual in that he professes to take a relaxed view towards his paper being traded. "It is important to look after the end investor, but equally I am very open to the idea of secondary market trading."

He argues that, if his paper was trading at a premium in the secondary market, he would not issue under those circumstances. "The way we run the programme - because we have multiple and divergent sources of funding - we put out paper when the price is right, not when a particular cash need arises."

The Unilever programme has attracted a good deal of attention since its launch last July. The first AAA-rated borrower to access sterling CP also made clear its intention of accessing consistently funds below Libid. "We believe we are getting the tightest funding in the market - very sub-Libid money," professes Mr Green, who also notes that the programme has had outstandings of between £100m-150m for most of its life.

But one or two dealers reckon that such aggressive pricing levels have meant that the issuer has sacrificed volume for pricing - something Mr Green firmly denies. Sniffs one dealer: "Being the benchmark issuer is a function of both price and volume", hinting that Unilever falls well short of the second criterion.

Troops of investors apparently take paper at Libid, but significantly below that is more difficulty - though continental banks, often overlooked in sterling dealerships, purport to find European demand for sub-Libid issues.

So the paucity of sub-Libid takers could be something of a constraint for an issuer like BT. If BT were to issue, terms would have to be very tight. David Harrison admits: "To be competitive for us, we would have to issue at terms as fine or finer than anyone else in the market."

Increasing sub-Libid liquidity will, if one believes the discount houses, be a function of a more active secondary market. Will the discount houses eventually become dealers then? Not according to Mr Jewson, who argues that if the market evolves in a pattern similar to that for Eurocertificates of deposit, dealers will be redundant, and issuers will post prices direct to investors.

A liquid, tradable market would, in his view, make way for large and finely priced issues - such as BT.

Katharine Campbell

FRANCE

EDF leads the issuers, and mutuals are top investors

FOR ITS third year of existence, France's commercial paper market maintained a pattern of sustained growth, with major new issuers and an increase of more than 50 per cent in volume over the course of 1988.

The year was also marked by an attempt, so far fruitless, to open the market up to issues by smaller companies.

The outstanding volume of commercial paper reached FFr63bn by the end of 1988, compared with FFr41bn at the end of 1987 and FFr24bn at the end of 1986. At its peak, in November, the volume outstanding even exceeded FFr73bn.

The market showed strong and regular growth, but never got carried away.

During the year the number of issuers remained stable at around 100, with the most notable newcomer being Electricité de France (EDF), the national electricity generator. By the end of the year EDF had taken the first place among commercial paper issuers, with slightly less than FFr6bn of paper outstanding.

Among the other leading issuers, all the major names in France's state and private industrial sectors were represented: carmaker Peugeot; SNCF, the railway group; oil major Elf Aquitaine; Michelin, St Gobain, LVMH, Pechiney, Caisse Nationale des Télécommunications, Snecma, Printemps.

Other issuers which had not yet tapped the commercial paper market a year ago but which had over FFr1bn outstanding by the end of 1988 included Hachette, the magazine publisher; Remy Martin, the cognac group; and RVI, the industrial vehicles subsidiary of Renault.

The market remains highly concentrated, since 21 per cent of the issuers account for 68 per cent of the paper in issue.

Although the maturities authorised for commercial paper range between 10 days and 7 years, in practice around 70 per cent of all paper is issued at less than 90 days, and around 50 per cent falls between 20 and 40 days.

"The market likes very short maturities," explains an official at the Bank of France. "Treasurers want paper at four to five weeks."

Even more striking is the fact that no one has yet used the possibility of issuing paper between two and five years, for which the legal requirements are slightly different and for which a rating is obligatory.

The close link between investor demand and the maturity of issues illustrates another characteristic of the French commercial paper market: the direct link between issuer and subscriber.

"They agree among themselves that the paper should have the exact maturity which suits to the day the investor's needs. As a result, there is no secondary market, and paper is held until it matures," explains Mr Jacques Pillet, president of the French association of corporate treasurers (AFTE).

Yields offered on commercial paper present two characteristics: they are extremely close to – generally slightly below – interbank market rates, and they hardly vary according to the signature. Rates for good quality signatures, for example, are often two or three sixteenths of a point below the money market rate.

"Major issuers seek to align their yields on banks' certificates of deposit," comments a Bank of France official.

Lower quality signatures, however, do not pay much more. The gap between the highest and lowest yields is generally no more than a few tenths of a point.

"Investors do not take account of the risk, they do not look enough at the signature," says Mr Pierre Durance, in charge of treasury operations at Crédit Lyonnais.

The scant attention paid to the quality of the issuer has slowed the development of the practice of rating. Agence d'Evaluation Financière (ADEF), the specialised domestic rating agency, has so far given only 14 ratings to commercial paper programmes.

"If the use of ratings is so low, it is because the cost is not compensated by an interest rate advantage," comments one observer.

In other words, investors are not sufficiently sensitive to the risk of default on short-term paper to be willing to accept a lower yield in return for a good rating.

French commercial paper

In issue (FFr bn)

1985	Dec	3.3
1986	Jan	10.1
	Feb	14.4
	Mar	17.0
	Apr	20.1
	May	23.7
	Jun	25.3
	Jul	26.0
	Aug	25.5
	Sep	24.7
	Oct	25.1
	Nov	26.3
	Dec	24.0
1987	Jan	29.2
	Feb	34.3
	Mar	36.5
	Apr	35.4
	May	37.2
	Jun	40.0
	Jul	48.3
	Aug	48.2
	Sep	46.1
	Oct	47.1
	Nov	47.6
	Dec	40.8
1988	Jan	49.9
	Feb	56.5
	Mar	55.3
	Apr	59.0
	May	57.2
	Jun	59.5
	Jul	67.3
	Aug	67.5
	Sep	63.0
	Oct	66.1

Source Bank of France

The major investors in commercial paper are the mutual funds – both *sociétés d'investissement à capital variable* (Sicavs) and *fonds communs de placement*. At the end of October, mutual funds managed by banks accounted for 43 per cent of outstanding commercial paper. Banks themselves directly held 17 per cent of outstanding paper, with insurance companies and pension funds accounting for 24 per cent and corporations for 16 per cent.

The preponderance of mutual funds has given rise to some criticism.

"The banks naturally place the commercial paper with their own Sicavs, in order to allow their corporate clients to issue paper at attractive rates," comment some corporate treasurers.

"Placing commissions are so low on this very competitive market that they prefer to place the paper with their own captive funds," adds another specialist.

Bankers, however, affirm that their mutual funds are naturally interested by this kind of paper, which allows them to diversify their investments while maintaining interest rates.

One modification to the rules on commercial paper issues was made last summer, when the back-up line, designed to ensure the liquidity, though not the guarantee, of a commercial paper programme, was suppressed.

Among the lead managers, the market remains highly concentrated. The top 12 banks accounted for 91 per cent of paper issued, with all the major French banks present, as well as foreign houses like J.P.Morgan and Barclays.

The major innovation of the year, however, was the Government's attempt to open the market to small and medium sized companies, known in France as PMEs.

In July, Mr Pierre Bérégovoy, minister for the economy, announced that the minimum size for commercial paper issues would be reduced from FFr5m to FFr1m, in order to allow PMEs to tap the market and have access to funds at rates lower than conventional bank loan financing.

At the same time, the PMEs were to be allowed to back their commercial paper programme up with a bank guarantee, so as to give total security to investors. The normal information requirements (a financial presentation note, quarterly reports) were maintained, nevertheless.

The result was a hybrid product, closer to bank paper from the investor's point of view, because of the bank guarantee, and still complicated for a small company to issue. Consequently, only five issuers have so far taken advantage of the new rules.

Mr Bérégovoy's staff, however, does not regret the move, noting that small companies, even if they do not themselves end up issuing commercial paper, can use the threat of doing so as a means of negotiating better credit terms from their bankers.

Patrick de Jacquelot

Banking correspondent, Les Echos

FINANCIAL TIMES
COMPANIES & MARKETS
Monday January 30 1989

INSIDE

MBOs — what a tangled web!

Management buyout bids have been hitting the headlines with a vengeance since the stock market crash of 1987. Before the crash, MBO bids could be counted on the fingers of one hand. By contrast, the number of publicly-notified MBO bids over the past 12 months has stretched into double figures. But despite their popularity, they remain complicated and often confusing affairs. Nikki Tait sets out to untangle the issues surrounding MBO bids. Page 21

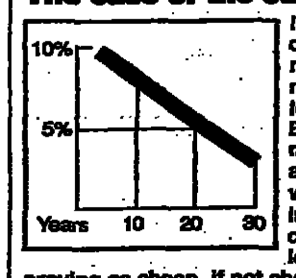
The fashionable pay carrot

Performance-related pay is becoming a symbol for the personnel practices of modern businesses. But the shift in philosophy has created tricky questions for companies — of definition and of motivation. Charles Leadbeater argues in the Business Column that, as the workforce becomes more diverse, so performance-related pay will only be one route towards greater diversity of reward. Page 34

Steeled for a shake-up

Britain's steel industry is undergoing a wide-reaching change in ownership structure — most notably with last December's flotation of British Steel. But more than half a dozen other steel-makers or steel-finishers have also been involved in the industry's shake-up. Page 22

The case of the curious curve

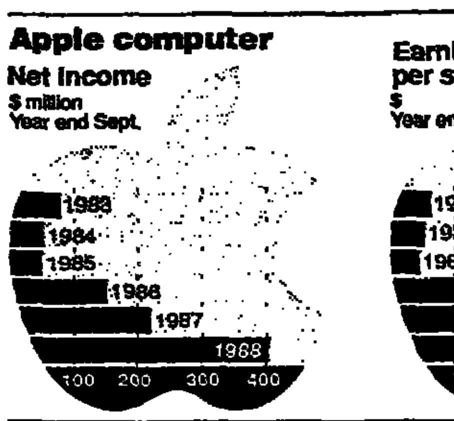


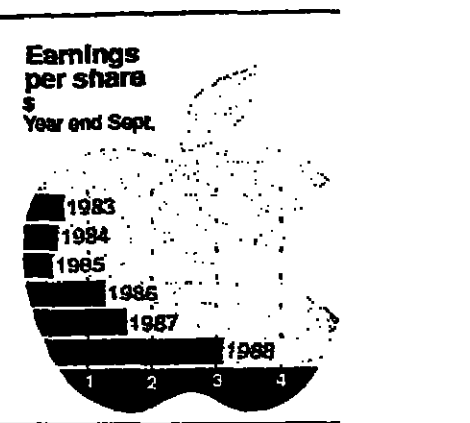
Investors usually demand that interest rates rise as the maturity of their loans grow longer. But major government bond markets around the world are witnessing so-called inverted yield curves, when long-term funds are proving as cheap, if not cheaper, than the very shortest borrowings. The phenomenon ought to open up new opportunities for borrowers, reports Norma Cohen. Page 18

A sudden blemish on quick-growing Apple

Louise Kehoe on the group's fall in earnings per share

Sculley: 'We have nothing to be embarrassed about'





"THE BUCK stops here," says Mr John Sculley, finger to his chest, as he explains how Apple Computer ran foul of the notoriously volatile memory chip market, a mistake which will cost the personal computer company approximately $27m in the current quarter.

It is the first serious reverse for Mr Sculley since he took over as chairman of California-based Apple in late 1985. Since then, Apple's earnings have increased in every quarter.

The company, a pioneer of personal computers, has been transformed from a supplier to the home and educational market into a major producer of business personal computers, challenging IBM and leading makers of IBM-compatible machines.

Early on Friday morning, however, Apple revealed that it expects earnings in the current quarter to be 35 cents to 45 cents per share, down from 61 cents in the same quarter last year and significantly lower than the 65 cent projections which the company had confirmed only a week earlier.

A dramatic fall in the stock price was inevitable. "We've been taking bets," Mr Sculley revealed in his office as he glanced at one of Apple's Macintosh computers which monitored stock market activity. "Thirty-eight dollars represents a vote of confidence in management, $36 is to be expected..." And $34? "I'll be looking for a job," he laughed.

This was hardly an average morning in the Apple Computer executive suit, yet it was not a day of recriminations. "The executive team made the decisions," Mr Sculley said. "I've analysed what happened and we have nothing to be embarrassed about."

Others are not so sure. The dramatic switch in Apple's earnings forecast shocked stock market analysts. "My sense is that there was some breakdown in the internal system, a management problem," said Mr Bruce Lupatkin of Hambrecht & Quist in San Francisco.

Indeed, Apple's spectacular growth has some analysts wondering whether the company's management is over-stressed.

The company has hired about 4,000 new employees in the past two years, among them several senior executives. Last August it went through a major reorganisation. It is currently overhauling its business methods in pursuit of its ambition to grow from a $4bn revenue corporation to a $10bn one in the early 1990s.

What has just gone wrong, according to Mr Sculley, is that Apple bought millions of scarce Dram (dynamic random access memory) chips on the "spot" market last summer, paying peak prices as high as $38 per chip – or three times the prevailing prices on long-term, high-volume supply contracts.

With Macintosh sales soaring, Apple had used up its Dram supplies months in advance of schedule. "Customers were screaming for memory kits, and we were shipping Macintosh IIs with only minimum memory configurations," Mr Sculley recalls.

Stripped of several extra megabytes of memory, Apple's top-of-the-line computers cannot perform at their best or run the latest desk top publishing and office productivity programs. Apple's managers feared that the company was in danger of losing its competitive advantage just as IBM's new PS/2 personal computers were beginning to take off.

Forced to buy high-priced Drams, Apple raised its US prices in September to protect its highly-prized 50 per cent profit margins. Contractual obligations delayed the full impact of the price rise, and it was late November, Mr Sculley says, before the company recognised that sales of fully-loaded systems were slowing down.

Apple's US dealers, it is now evident, continued to buy memory boards from the third party suppliers who had eased them through the months of shortage. These add-on memory boards, which are generally much cheaper than equivalent Apple products, enabled dealers to shield customers from Apple's price increases.

Sales of Macintosh computers continued to grow, but Apple's profit margins were reduced by about 2 per cent in the last quarter (ended December 30).

Apple intervened last week with price cuts on its top end computers and memory boards. What the company's management apparently did not realise at the time, however, was that Apple was over-stocked with a glut of expensive memory chips.

With hindsight, it is easy to say that Apple's summer Dram purchases were badly timed. Memory chip prices have eased considerably in recent months, with spot market prices currently running at about $23.

Should Apple have known that Dram prices were on a downward trend? Unexpected external events combined to reduce the price of memory chips, Mr Sculley says. "We expected IBM's PS/2 products to take off in the second half of 1988, consuming lots of memory." Instead, IBM's consumption of Drams reportedly declined in the fourth quarter. "Production of Drams increased faster than expected," he said.

Apple expects to work through its Dram surplus during the current quarter. The question remains, however, whether it was sheer bad luck or bad management, which caused Apple's Dram problem.

As the second-largest purchaser of Drams in the world, after IBM, Apple is highly vulnerable to swings in the market, analysts note. The company's close relationships with Dram suppliers should, however, have provided it with excellent insight into chip market trends.

Perhaps the most troubling aspect of Apple's Dram débacle was the length of time that it apparently took for senior management to realise the company was over-stocked with the expensive chips. Although measured only in weeks, the delay proved costly.

"In hindsight, we should have handled the Dram shortage differently," Mr Sculley admits, "but that is not something that we could have known at the time."

He is convinced Apple will bounce back. "Sales of Macintosh computers are growing at more than 30 per cent per year."

"Apple is a company in which important decisions have to be made everyday in a changing environment," he adds. "There is no road map for our business, we are creating new markets, treading new ground."

It has to come up with new products as revolutionary as the Macintosh, which is being widely emulated by competitors, and fend off intense competition from manufacturers of computer work stations, as well as strong rivalry in the personal computer market.

By Friday night, Apple's stock stood at $37⅞, down $4¼ on record heavy trading. By his own measure at least, Mr Sculley had won his vote of confidence.

Bonn shops around for a versatile work formula

Haig Simonian in Frankfurt looks at the economic challenges facing a confident West German Government

MR HELMUT Haussmann, the new West German Economics Minister, had every reason to look smug. Last week's press conference announcing the Government's economic report for 1989 was a tame affair.

After all, the numbers released were hardly bad. True, real economic growth is set to decline to about 2.5 per cent this year against 3.4 per cent in 1988 – the highest level reached in the 1980s. Unemployment will only fall slowly, with an average jobless rate for the year of 2.2m, the Government admitted.

But that will still mean 150,000 new jobs in Germany in 1989, against the 170,000 created last year. Moreover, inflation, although set to rise to between 2 and 2.5 per cent, is still peanuts by other people's standards. Both tax receipts and likely profits from the Bundesbank are booming, contrary to expectations a matter of months ago.

No wonder the criticism from the opposition Social Democratic Party looked fairly contrived. Not enough was being done about jobs, it complained. The Government had only itself to blame for the rise in prices through its consumer tax increases, which it described as "the economic policy mistake of 1989."

Yet it was a pretty spiritless affair. Compared with this time last year, Bonn is sitting pretty. The tortoise may not yet have changed into a hare, but Germany's unexpectedly swift economic pace last year has succeeded in spinning a defensive web around government policy. Even a trade surplus set to rise to about DM126bn ($68bn) from DM121.3bn in 1988, according to the Government's forecast, has attracted little outside fire.

With the economic data all fairly promising, Bonn has been able to indulge itself. Greater flexibility in working hours is the new theme, treated at length in last week's report.

With 1992 around the corner, Germany must become more competitive to keep pace with cheaper European rivals, it said. A "new path" will have to be found between employers and the unions if the jobless rate is to fall below 2m in the medium term, according to Mr Haussmann. Greater flexibility will even help women in employment, letting them work and bring up a family.

But the biggest disincentive to women working in Germany is the country's antiquated shop opening laws. These are organised in a way which makes it virtually impossible for anyone in work to buy goods, apart from a few frantic hours on Saturday and in the lunch break.

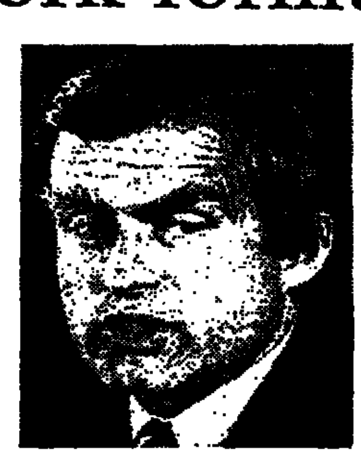
The Government had a message there, too. Mr Haussmann said its plan to let shops stay open late one night a week was likely to become law sooner than expected – possibly this spring. Two days later, the timetable was adjusted to the summer.

The question of shopping hours has taken on surprising dimensions as foreigners have focused on the rigid German system as an example of all that is wrong in domestic consumption. Economists from Washington to Weybridge who have never set foot inside a German store have called for change as a symbol of the new liberal spirit the Government claims to represent.

How easy it will be to introduce change is another matter. Mr Haussmann is hoping for rapid action, but shop workers' unions and some of the country's big department stores remain as opposed as ever.

Perhaps they should all take a leaf out of Hesse's book. Like the country as a whole, Germany's fifth most populous state has been ruled since April 1987 by a centre-right coalition.

But, in contrast with Bonn, the Hesse Government has been pushing ahead to liberalise at a much smarter pace.



Haussmann: reason to be smug

Last week, the cabinet passed a law paving the way to relaxed state-wide opening hours at weekends. Hesse, run by Prime Minister Walter Wallmann, former Mayor of Frankfurt who has won a nationwide reputation as a Mr Fix-it, is already making a name for flexibility – something which may be unavoidable with a huge US military presence and Europe's second-biggest airport on its doorstep.

The Hesse Government has already caused a stir with its call to abolish the Börsenumsatzsteuer – the stock exchange turnover tax – which has encouraged the drift of German securities trading abroad. Trying to drop the tax altogether, at least as far as the state is concerned, may be no more than a publicity stunt and a way of putting pressure on Bonn, but it has attracted plenty of attention.

Changing local shopping laws should do even more. But before consumers rush for their carrier bags in glee, they should take a look at the latest details.

The proposals approved by the state cabinet only cover shops in 60 tourist locations at weekends. Even then, extended hours will only apply on 40 Sundays and public holidays a year and for a maximum of eight hours.

What can be sold is also highly restricted. Bathing articles, religious ornaments, sweets, tobacco and flowers feature prominently, along with fresh fruit and newspapers. Amazingly, milk can also change hands. That is all.

Economics Notebook

The power of positive thinking

IN THE precarious task of reading economic tea leaves, it is a brave analyst who ignores the role of expectations. What people expect to happen can be as important as what actually has.

The reasoning seems straight-forward. If, say, industrialists expect the economy to slow down, output levels and orders will be adjusted accordingly and their expectations will become self-fulfilling.

This explains why business optimism indicators such as the Confederation of British Industry (CBI) industrial trends survey are watched carefully by financial markets. They have more weight than mere forecasts, which everyone knows are always wrong. Businessmen and consumers actually plan spending according to their expectations about the economy.

Recent experience in the housing market suggests expectations effects can be powerful. The direct impact of higher interest rates since June is probably only just beginning to work through – if only because many annually-fixed mortgages did not increase until this month.

However, in the last six months house prices have stopped rising at annual growth rates well into double-digits and have stabilised or possibly even fallen. One explanation is that expectations of an end to the housing boom have had an effect in their own right. Sellers expect less for a property, buyers offer less.

Yet, tantalisingly, the role of expectations remains beyond easy comprehension. Businessmen will sometimes expect a down-swing which never materialises – perhaps swayed by natural caution or the belief that moaning may bring about policy changes. Retailers are notorious for being either hopelessly over-confident or wildly pessimistic.

The analysis of expectations becomes still more convoluted when assessing the impact of government policy. Mr Nigel Lawson, the Chancellor, may raise interest rates to slow consumer spending. But if consumers are moderately well-informed and expect an increase they will curtail spending themselves, making the increase unnecessary. Policy then becomes a game of bluff and double bluff.

Another version is if consumers know that the Chancellor is using interest rates on a regular basis to control spending. They will then adapt their behaviour, by taking out fixed-rate mortgages, for instance, so as to become insensitive to interest rate changes and government actions become impotent.

In academic economic theory there is much detailed and often tortuous debate about how expectations can be modelled and used by planners. A large part of the argument is about how rational is the behaviour of economic agents such as consumers and businessmen. There is also the problem of an incomplete market for information about both the performance of the economy and expectations.

Practical analysts looking for a rule of thumb would probably do best to remember John Maynard Keynes' description in his General Theory of rational individuals "choosing between the alternatives as best we are able, calculating where we can, but often falling back for our motives on whim, or sentiment or chance."

If this is applied to current UK economic indicators, there are still useful conclusions that can be drawn. A good example is the CBI survey question on investment intentions. Companies are asked whether they intend to authorise more investment in plant and machinery in the next 12 months. This is used to calculate the balance between those anticipating an increase and those forecasting a fall.

In the past few years it has proved a good indicator of actual investment spending.

The survey is not precise of course, but generally when it has pointed to strong growth, investment spending as shown in official figures has turned out to be strong. Last year it forsaw the rapid acceleration in investment expenditure.

Encouragingly, latest survey results show manufacturers expect investment to remain buoyant in 1989 despite high interest rates and deteriorating export prospects.

More caution is needed when considering government expectations. Here the boundary between expectations and hopes is fine. The Treasury expects the current account deficit and inflation to moderate this year but it would be unrealistic to think it would say anything else.

The Government may also try to use expectations as a policy instrument. Talking the pound up or down is the most obvious example.

Manipulating expectations is also part of Budget procedure. Mr Lawson is a master of presentation who likes to spring surprises on Budget day.

He is currently giving the impression of fiscal restraint on March 14. Together with higher mortgage rates, the prospect of no tax cuts could be discouraging consumer spending. Mr Lawson, it appears, will hold the income tax rates steady and forecast a big public sector surplus next year. Or will he?

Ralph Atkins

THIS WEEK

FINANCE ministers and central bank governors of the seven leading industrial nations will take centre stage in the financial world this week at the G-7 meeting in Washington.

Subjects discussed at the meeting, which starts on Thursday night, are likely to include the dollar and international debt. Analysts will be looking for responses to recent currency and interest rate trends.

Among economic statistics due for release, Friday's US labour market statistics for January will be closely watched by financial markets and will give a guide to the strength of economic growth at the start of 1989.

The employment report covers job levels and unemployment, both of which reflect economic activity. In recent months the report has influenced dollar trading and speculation about higher US interest rates to slow growth.

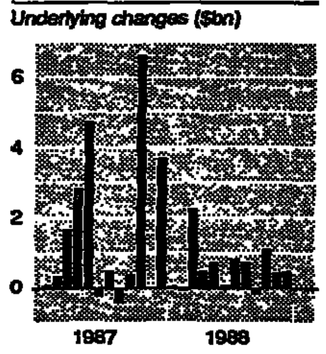
The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for non-farm payrolls to rise by 255,000. The unemployment rate is expected to remain unchanged at 5.3 per cent.

Leading indicators for December are released on Wednesday. They look forward three months and include factory output, money supply, consumer credit and prices. A rise of 0.4 per cent is expected.

Mr Alan Greenspan, chairman of the US Federal Reserve, testifies in congress on Tuesday and Thursday.

UK statistics include figures for official reserves at the end of January published on Thursday. These will provide a rough guide to the extent of intervention by the Bank of England on foreign exchange markets. Action to influence sterling trading is likely to have been modest but the Bank is thought to have sold pounds during the month to help support a weak D-Mark.

UK Official Reserves



The public expenditure white paper is published today and will set out details of announcements made in November's autumn statement.

In Japan, the current account surplus for December, due on Friday, is likely to show a big rise but officials will take heart from the buoyant outward capital flows. A raft of employment related figures for December, also due on Friday, will show continuing very low unemployment rates.

Other events and statistics this month (with MMS International consensus in brackets) include:

Today: European Community trade ministers meet on internal market in Brussels. Japan, housing starts in December.

Tomorrow: UK new vehicle registrations in December. Bank of England December bill turnover statistics. US agricultural prices in January.

Wednesday: US construction expenditures in December (up 0.2 per cent rise). UK advance energy statistics.

Thursday: West German Bundesbank council meeting. US single-family home sales. UK Bank of England capital issues and redemptions in January.

Friday US manufacturing orders (up 3.5 per cent). UK housing starts and completions.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Sub-participation under scrutiny

THERE IS nothing like a corporate liquidation to send bankers rushing to the sheaves of loan documentation which accompany most corporate credits and normally sit gathering dust. So it was with the collapse of Equiticorp International, the Australasian investment company which controlled Britain's GPG Group and the Guinness Mahon merchant banking and financial services group.

As is now well known, a syndicate led by Samuel Montagu, the merchant banking arm of Midland Bank, lent Equiticorp £130m to finance its acquisitions of the British group. By the time of the liquidation, there was about £98m outstanding.

Although Montagu received some approbation for supporting Equiticorp, it was quickly plain that the lending syndicate was in good shape. In a business where much of the lending is unsecured, they had held on to the 61 per cent stake in the two companies as collateral. The value of that stake should more than pay off the loans.

At such times, however, shortcomings in common banking practices are often exposed. In this case, for example, the practice of sub-participation – the selling off by banks in the lending syndicate of some exposure to other banks with the promise to pass through the relevant interest and principal payments – comes under scrutiny.

One problem for the sub-participant is that his rights of recourse to the original borrower are non-existent. His agreement is with the lender through which he must pursue his claim. Sub-participations – about which the agent of the lending syndicate is generally ignorant – complicated the restructuring of Fecsa, the Spanish electrical utility and Kongsberg, the Norwegian defence company, for example.

The complication in the Equiticorp case is that, since Guinness Mahon is a bank, its owners have to be approved by the Bank of England. Thus – and not surprisingly given the controversy about whether the Bank should have let Equiticorp buy Guinness Mahon in the first place – the Bank was seeking information about sub-participations to make sure the owners of the collateral were indeed fit and proper.

Difficulties such as these have prompted lawyers and others to suggest loans should be sold on using two other methods: assignment or novation. The rights of the assignee are limited under English law, however, and novation requires the agreement of the borrower, and is more time-consuming and costs more in lawyers' time. It is not popular among lending banks since they are forced to admit to the borrower that they have sold on the loan.

The likelihood then is that, unless something more devastating happens, practices will not alter much. The moral therefore is that, if you sub-participate, make sure that the bank from which you buy has a reputation which would suffer if you made a fuss.

Elsewhere, the insider trading scandal in Paris over the takeover by Pechiney of Triangle Industries of the US has not affected the reaction of banks to the financing of the deal.

Chase Investment Bank increased the financing after oversubscription to $1.7bn from $1.5bn. The financing at 25 basis points over London interbank offered rate – that stood at 9⅛ per cent on Friday – refinances junk bonds yielding 14 to 15 per cent. A total of $2.7bn was committed in syndication.

Amsterdam-Rotterdam Bank was said to have been awarded the mandate to raise a tightly-priced $250m five-year deal for Associates Corporation of North America.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,021.8	0.0	68.0	10,974.0
Prev	534.3	10.0	0.0	12,279.0
Other	1,179.7	3.6	137.6	1,237.7
Prev	2,790.1	265.3	100.4	1,902.8
Secondary Market				
US$	11,546.3	1,315.3	4,981.9	6,809.9
Prev	8,861.1	1,241.8	6,226.0	6,630.4
Other	16,717.5	1,129.2	5,101.7	22,419.4
Prev	17,372.4	1,403.3	6,148.6	24,652.6

	Cedel	Euroclear	Total
US$	9,385.7	27,931.5	37,317.2
Prev	8,849.7	26,932.9	35,782.6
Other	21,600.4	26,320.0	47,920.4
Prev	24,584.0	30,051.5	54,635.5

Week to January 26, 1989. Source: AIBD

INTERNATIONAL BONDS

Inverted yield curves fail to draw rush at longer end

IN A PERFECT world, investors demand that interest rates rise as the maturity of their loans grows longer. But in leading government bond markets around the world, the long term funds are proving as cheap – if not cheaper – than the very shortest borrowings, a phenomenon that ought to open up new opportunities for borrowers.

Inverted yield curves can be found in the government bond markets of the US, UK, Australia, Canada, Switzerland and the Netherlands.

A handful of deals have emerged over the past few weeks that are clearly aimed at taking advantage of the better interest rates available in the longer end. For instance, last week, Barclays Bank, via Kidder Peabody, issued a $100m 10-year bond bearing a coupon of 9⅞ per cent and priced at 101.4 to yield 74 basis points over Treasuries. The proceeds were believed to have been swapped into floating rate funds at about 40 basis points under London interbank offered rates. The issue carries a five year call option – a feature which underwriters have been able to sell to help subsidise the swap rate.

Two weeks ago, Italy issued a $1bn 10-year bond carrying a coupon of 9⅝ per cent and priced at 101⅞, and said it did not intend to swap the proceeds into floating rate funds as it has with preceding issues. Effectively, the sloping yield curve and the prospect of higher short term rates in the US persuaded Italy that locking in 10-year funding was a wise move. Also issuing 10-year Eurobonds were the World Bank and Scandanavian Airline Systems (SAS), which raised $500m and $200m apiece in the past few weeks.

But aside from those issues, borrowers do not appear to be rushing headlong into the longer end of the market in those currencies where funds are ostensibly cheaper.

Economists offer a variety of explanations for the phenomenon. Mr Mark Cliffe, of Nomura Research Institute explained that many corporate treasurers may view the inverted yield curve as a sign that interest rates are about to fall further, and are waiting to see the drop before borrowing. "Nobody wants to be the last guy to borrow at 10 per cent," he said.

Also, demand for cash has simply not been that strong. While corporate profitability has been rising strongly in the UK and in the US, capital expenditures have not been. Corporate coffers are flush with cash and finance directors see no reason to fill them further, Cliffe said.

Steven Bell, economist at Morgan Grenfell, points out that Eurobond market issuers do not necessarily share the benefits of a sloping yield curve granted by the underlying government bond markets. After all, investors demand higher returns for riskier borrowers and credit spreads tend to widen as maturities lengthen. "The Eurosterling yield curve was upward sloping for most of 1988," Bell points out, noting that it did not invert until nearly the end of the year.

Also, economists point out, an inverted yield curve can mean many things. One view is that the downslope is a sign that the current tight monetary policy is deemed likely to be effective, squeezing inflation out of the economy in years ahead.

However, Mr Bell points out that to some extent, the downward slopes in government bond markets merely reflect the lessening in official borrowing. In the UK and Australia, governments have not only ceased issuing new debt, they have embarked on policies to repurchase existing debt. This has made long-term debt in both government bond markets especially scarce, and interest rates have fallen accordingly. In other government bond markets such as Switzerland and the Netherlands, governments have reduced borrowing requirements while demand for fresh paper has been stable.

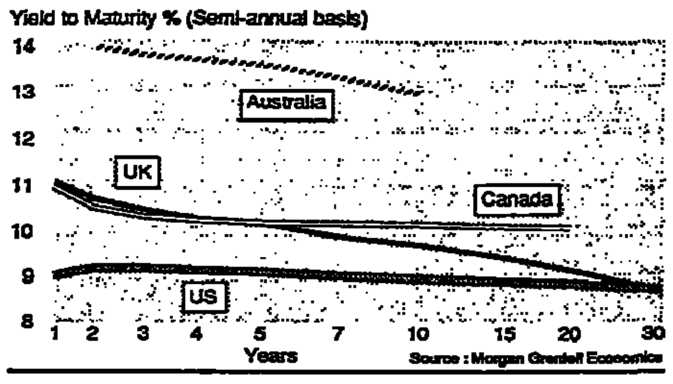
Mr Jonathan Wilmont, economist at Credit Suisse First Boston notes that Eurobond issues which use those government bonds as a benchmark have responded to the shortage by including slightly higher spreads on new paper.

Mr Wilmont pointed out that one view of inverted yield curves is that they presage a recession. In that case, corporations would do well to borrow at current rates because in recessionary times, investors place an even bigger premium on credit risk, making corporate borrowings more expensive.

However, he notes that for those corporations which most need to raise cash, long-term financing in the Eurobond markets may well be out of the question. Much of the cash raised recently is acquisition-related – the sort of borrowing that the Eurobond markets cannot accommodate, either in terms of its riskiness or in terms of the quantity of funds needed.

Norma Cohen

Government bond yield curve



NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Mitsui & Co.‡◆	1bn	1993	4	4⅛	100	Nomura Int.	4.125
Hanwa Co.‡◆	700	1993	4	4¼	100	Yamaichi Int.	4.25
Mitsubishi Oil‡◆	250	1993	4	4⅛	100	Nikko Secs.	4.125
Hankyu Dept Stores‡◆	200	1993	4	4¼	100	Daiwa Europe	4.25
Nakayama Steel‡◆	150	1993	4	4½	100	Nomura Int.	4.50
Sashin Elec.‡◆	40	1993	4	5¼	100	Daiwa Europe	5.25
Canon Inc.(a)‡	600	1993	4	(4½)	100	Yamaichi Int.	*
Canon Inc.(a)‡	400	1993	4	(4½)	100	Singapore Nomura	*
Topy Industries‡	150	1993	4	(4⅝)	100	Nikko Securities	*
C'Wealth Bk Aust.†◆	400	(d)	(d)	(d)	100	CSFB	-
IBM Credit Corp.◆	250	1992	3	9½	101.07	CSFB	9.075
NJK Finance†◆	100	1999	10	(f)	100	Kidder Peabody	-
Dai-Ichi K'Denki(g)‡	90	1993	4	(5⅛)	100	Nomura Int.	*
Tokyu Store(h)‡	90	1993	4	(5⅛)	100	Nomura Int.	*
Barclays Bank◆	100	1999	10	9⅞	101.40	Kidder Peabody	9.651
Svenska Handelsbk◆	120	1995	6	10	101⅞	Bankers Trust	9.575
Sanken Electric‡	150	1993	4	(4⅝)	100	Daiwa Europe	*
Kyocera‡	300	1993	4	(4½)	100	Daiwa Europe	*
Nippon Steel‡	1bn	1993	4	(4½)	100	Nikko Secs.	*
Sumitomo Metal‡	500	1993	4	(4½)	100	Nikko Secs.	*
Kobe Steel(k)‡	500	1993	4	(4½)	100	Yamaichi Int.	*
Kobe Steel(l)‡	500	1993	4	(4½)	100	Nomura Int.	*
Canon Inc.◆	70	1999	10	9¾	102	Bankers Trust	9.432
Sumitomo Fin.Austr.◆	100	1993	4	9¾	101.60	Sumitomo Finance	9.253
NEC Corp.‡	500	1993	4	(4½)	100	Daiwa Europe	*
AUSTRALIAN DOLLARS							
BFG Luxembourg◆	50	1992	3	15	101⅝	Bankers Trust	14.297
Royal Bk Canada◆	50	1991	2	15½	101¾	Hambros Bank	14.432
CANADIAN DOLLARS							
Prov.Saskatchewan◆	300	1994	5	10½	101	Wood Gundy	10.235
SWISS FRANCS							
Japan Radio§**(i)◆	100	1993	-	½	100	Credit Suisse	.500
Asian Dev.Bank◆	100	1999	-	5¼	99½	Credit Suisse	5.316
Toa Electric(e)‡	30	1994	-	(1⅝)	(100)	Banca D'Svizzera	*
Polly Peck◆	100	1995	-	6¼	100	S.G.Warburg Soditic	6.25
COFINOGA◆	100	1994	-	5¼	101	Societe Generale	5.019
Asian Dev.Bank**◆	100	1997	-	5¼	100½	Shearson Lehman	5.172
Tiger Polymer**§	25	1994	-	(½)	100	Citicorp	*
FP Corporation**◆	20	1994	-	5⅛	99⅞	LTCBJ	5.154
Japan Travel**◆	45	1994	-	5	99¾	UBS	5.058
D-MARKS							
Nord LB Lux.◆	100	1994	5	6	101¼	Nordeutsche Landesbk	5.706
ISS-Finans AS◆	140	1994	5	6¼	101⅜	Commerzbank AG	5.924
PK-Banken◆	100	1996	7	6¼	101¼	Bk of Tokyo	5.937
LIRE							
EIB(b)◆	200bn	1996	7	11	101¼	Banco Di Napoli	10.737
FRENCH FRANCS							
Republic Finland(j)◆	600	1996	7	7¾	98⅛	Banque Indosuez	8.482
YEN							
Bk of Nova Scotia‡◆	10bn	1993	4	(m)	101⅝	Goldman Sachs	-
PK Banken(n)◆	4bn	1993	4	6.5	101⅝	Nippon Credit	-
STERLING							
Albert Fisher Fin(c)◆	35	2004	15	5⅞	100	J.H.Schroder Wagg	5.875
Trusthouse Forte◆	100	1996	7	10¾	100¼	UBS Secs.	10.593
DANISH KRONER							
Rep. of Finland◆	400	1994	5	9⅛	101⅞	Privatbanken AS	8.647
PESETAS							
EIB◆	15bn	1996	7	11.4	100	BANESTO	11.400
LUXEMBOURG FRANCS							
BFG Lux.**◆	300	1994	5	7⅝	100¼	Banque Generale Lux.	7.563
D'Ieteren Trading**◆	300	1994	5	7½	100	Banque Generale Lux.	7.500
Belgelectric**◆	300	1994	5	7½	100	Credit European	7.500
Banque Worms**◆	300	1994	5	7⅝	100¼	Kredietbank	7.563

*Not yet priced. **Private placement. ‡With equity warrants. †Floating rate notes. §Convertible. ◆Final terms. (a)Issues fungible. (b)Call from 1994 at 101 declining ½% in 1995. (c)Convertible preference shares. (d)Coupon at 6 basis points over 6 month LIBOR. From February 1994 and annually thereafter, the investor may exchange the note for a five year note paying the mean of the 6 month LIBOR. Issue increased from an initial 300m. (e)Notes and warrants exercisable from 22/2/89 to 21/1/94. Call option for 9/8/91 at 101¼ decreasing by ¼ semi-annually. (f)Coupon at 20 basis points over 6 month LIBOR. (g)Warrants exercisable from 1/3/89 to 2/2/93. (h)Warrants exercisable from 3/3/89 to 3/2/93. (i)Put 30/9/91 at 105½ to yield 2.537. (j)Fungible with bonds issued 8/4/88 on 6/5/89 after the first coupon payment. (k)Asian tranche. (l)European tranche. (m)Coupon at Japanese long term prime rate, flat. Fixed, reset and paid semi-annually. (n)Redemption linked to Nikkei stock index.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

A thirsty horse discovers water

IF THERE WERE any lingering doubts as to whether the British economy has turned or not, they were virtually dispelled last week – for the gilt-edged securities market at least.

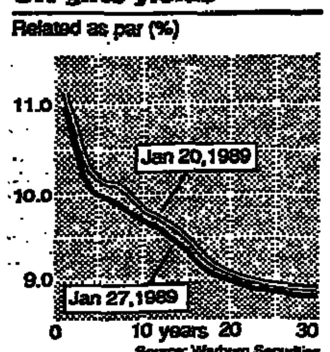
The market was like a thirsty horse that had smelt water and then discovered it. It drank heartily at the trough – though the Bank of England was a little more reserved in its buying – and already there is talk of the pre-Budget "run up."

For those looking to explain the strength of the market three interconnected factors stand out: the belief that the Chancellor's use of the interest rate weapon has begun to show definite signs of working, combined with the second reason: the lack of new issues of gilts.

This in turn has run up against the third factor: that investors who have to commit some funds to gilts cannot afford to be out of a market that is rising, no matter how attractive money market yields are at the moment. That said, there is a widening gulf between money market instruments and gilts, making the latter increasingly expensive relative to the former.

The purely technical factors behind the current rally left the market, especially the primary dealers, holding larger amounts of stock than they have for some time. Like most others, they too had been caught short by the rally that has occurred over the past two weeks. A technical correction can not therefore be ruled out.

UK gilts yields
Related as par (%)



Source: Warburg Securities

Together with the signs of a slowdown in consumer spending coming through earlier, both the Confederation of British Industry's quarterly business trends survey and Friday's trade figures for December combined to produce a steady rise in prices.

In the back of analysts minds is that there may also be a second leg to the consumer slowdown when, in April, 1.1m mortgage holders with the *Halifax Building Society* receive notice that their mortgage interest rates will rise from 10.25 per cent to 13.5 per cent.

The CBI provided the first and most comprehensive check-up on British industry since the tightening in monetary policy last year. It was generally supportive of the Treasury's views on the effects of interest rates.

There was a sizeable easing in industry's capacity constraints; planned price rises appear to be no more than normal for this time of the year; and, investment intentions remain extraordinarily buoyant. All of this bodes well for the domestic component of the "soft landing" scenario.

Then there were Friday's trade figures and the "headline" fall in the current account deficit to £1.2bn for December. The figure itself was less significant than what the full trade figures suggested about imports, and hence domestic demand. On Friday, the Treasury was keen to point out that over the year, the quarter on previous quarter growth rates in import volumes fell from 11 per cent in June to 8 per cent in September and 2 per cent in December.

This would therefore seem to be supportive of the Treasury's Autumn Statement forecast of a 5 per cent rise in non-oil import volumes (excluding erratics) in 1989 compared with 1988. Growth in imports will, however, have to continue to slow, although not dramatically further, to a level around that achieved in the third quarter of last year.

So far so good, but what about exports? This is the crucial second leg of the benign slow-down. Exporters, so the theory goes, will divert home production to export markets to make up the slack caused by the consumer slowdown.

The growth in non-oil exports (excluding erratics) is not propitious. The quarter on previous quarter growth rates show an apparently alarming trend. In June, export volumes were 5 per cent higher than the preceding quarter; so too in September. In December however, export volumes *fell* by more than 2 per cent. This at the very time imports showed their largest fall.

The CBI survey does not appear to offer much encouragement either on the exports front. Manufacturers' optimism for the year is at its most pessimistic since mid-1986, new export orders secured have fallen sharply as have expected deliveries over the next four months.

This "good news but bad news" outlook on the trade side raises some interesting questions about sterling. It would seem unlikely that the next move in official UK interest rates is up. But the tightening in policy under way in Europe and the US seems to have some way yet to go.

Many analysts on this side of the Atlantic, at least, see another rise in West German and perhaps US interest rates in the offing. If that happens, the current level of protection sterling enjoys will be diminished further. Will the Treasury sanction an early fall in sterling or be forced to match the next rise in world interest rates?

Simon Holberton

US MONEY AND CREDIT

Questions over Fed inflation policy

AS EVERY schoolboy knows, central bankers used to travel the world in the 1960s and 1970s regularly boasting about their plans to destroy the world with hyper-inflation. They never missed a chance to ridicule in public the contemptible notion of stable prices.

And they purposely ignored all economic statistics, deliberately stoking up economic activity just when it was obvious to all that inflation was getting out of control.

With the benefit of that little lesson in economic pre-history, it becomes easy to understand the jubilation in the US bond market this week.

When Mr Alan Greenspan, chairman of the Federal Reserve, declared on Tuesday that 5 per cent inflation was "clearly too high and must be brought down," long-term bond-holders had finally found a protector. Here, at last, was a central bank governor with a crusading zeal against inflation. What else could one say about a man who was prepared to make a promise like this to Congress. The Fed would "err more on the side of restrictiveness than stimulus" until it achieved its objective of "price levels sufficiently stable so that expectations of change do not become major factors in key economic decisions."

After hearing these words, many investors could not resist locking up money at 8¾ per cent for 30 years. And yet, with yields at the bottom of a year-long trading range, it seems worth questioning the market's bullish assumption – that Mr Greenspan will succeed where every previous Fed chairman has failed, that he will break the back of inflation without putting both the bond market and the economy through a traumatic and protracted squeeze.

The first reason for scepticism is the economic record so far. Mr Greenspan's tightening manoeuvres since he became Fed chairman have been too cautious to have any significant impact on economic growth or inflation. The latest batch of economic statistics amply bears this out.

Friday's GNP figures, which showed a growth rate of 2.0 per cent in the fourth quarter, translated into a 3.1 per cent rate, once pure accounting effects of the summer drought were factored in.

More significant was the breakdown of the fourth quarter GNP figures. Residential investment grew at an annual rate of 13 per cent during the quarter, while imports and personal consumption grew by 7 and 3 per cent respectively. Meanwhile real exports and business investment both declined. In other words, the balance of the economy's growth is precisely wrong for long-term balance of payments adjustment. All the sectors Mr Greenspan wanted to subdue seemed to be gathering strength towards the end of 1988, while those he wished to encourage were flagging.

The net effect was that the economy entered the present quarter with considerable momentum, perhaps enough to generate a *growth rate of* 3½ to 4 per cent, excluding drought effects. If, as the Fed must hope, capital spending and exports pick up again in the coming months, the GNP seems set to grow well above the Fed's informal 2½ to 3 per cent target.

Secondly, there is the big question mark over the Fed's entire strategy of controlling inflation without risking a recession. Past experience suggests strongly that it is impossible to reduce inflation without first raising unemployment. That will take economic growth substantially slower than Mr Greenspan's target, which is designed to stabilise unemployment.

In reality, therefore, the Fed's present objective appears to be stabilising inflation, rather than pushing it down in the foreseeable future – and, to be fair to Mr Greenspan, that was essentially what he told Congress this week.

However, even if the meticulous fine tuning required to stabilise inflation and unemployment were possible in theory, it would raise a host of practical and political problems. President Bush himself offered a hint of these immediately after Mr Greenspan's statement, when he observed that "I don't want to see us move so strongly against fear of inflation that we impede growth – we have to keep *expanding opportunities for* the working men and women of this country."

In case the markets missed the economic import of that comment, Mr Michael Boskin, the President's new chief economist, told the Congress the following day that he expected interest rates to "fall substantially," adding that an average rate of 6.3 per cent for three-month Treasury bills was "not unreasonable." The T-bills yielded 8.6 per cent when Mr Boskin spoke.

Mr Boskin's reasons for wanting lower rates were clear enough – without them the 1989/90 budget would become completely unmanageable. Amid the current euphoria on Wall Street, it seems to worry nobody that the current year's deficit, far from shrinking, looks like exceeding the previous year's $155bn shortfall by about $10bn.

As Mr David Hale of Kemper Financial Services notes: "Bush's whole budgetary strategy is built on continuous stagflation. If the White House is already worrying about Fed tightening, even before there *has been any economic pain or* economic deceleration, what would they say if Greenspan's policies started to bite?"

This leads to the last and, for investors, most significant objection to the present market euphoria. The Fed is not going to overcome inflationary expec*tations simply by raising* short-term interest rates for a few months and then cutting them again at the first sign of economic pain.

To be effective, monetary tightening has to cause some pain somewhere in the economy. In Mr Hale's words, "the Fed has to intimidate the private sector." This is a lesson which anyone who lived through the Fed's repeated *unsuccessful attempts to* slow an overheating economy in the late 1970s and late 1960s will remember. But so far, with the housing market recovering, the stockmarket booming and employment growing, there is precious little sign of anyone being intimidated.

Why is nobody intimidated? For the same reason investors are rushing to buy equities and long bonds. Everyone believes interest rates *will* drop abruptly the moment Mr Greenspan sees the slightest danger of a recession – and *ergo* that a recession will not be allowed to occur. In this expectation they are probably right – a poor case for secular disinflation and long-term bond investment.

As Mr Hale observes: "What gives a central bank credibility in combating inflation is the threat *of a recession, not the prospect of an indefinite bull market.*"

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.13	9.13	9.60	9.20	6.27
Three-month Treasury bills	8.57	8.24	8.12	8.57	6.21
Six-month Treasury bills	8.83	8.26	8.25	8.87	5.72
Three-month prime CDs	9.20	9.17	9.20	9.35	6.77
30-day Commercial Paper	8.57	8.93	9.04	9.45	6.65
90-day Commercial Paper	9.05	8.98	8.98	9.18	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99⅞	+1⅝	8.97	9.07	9.29
20-year Treasury	104⅝	+1¼	8.86	9.05	9.05
30-year Treasury	102½	+1⅝	8.76	8.88	n/a

Source: Salomon Bros (estimates).

Money supply: In the week ended January 16 M1 fell by $2.5bn to $783.8bn.

NRI TOKYO BOND INDEX

December 1983 = 100	26/1/89	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	148.68	4.51	148.46	146.83	143.76
Government Bonds	149.91	4.19	149.31	147.95	144.07
Municipal Bonds	151.05	4.78	150.74	148.10	145.76
Govt.-guaranteed Bonds	152.14	4.83	151.78	149.29	147.25
Bank Debentures	141.55	4.51	141.34	140.21	137.72
Corporate Bonds	148.51	5.36	148.40	146.46	144.25
Yen-denom. Foreign Bonds	152.19	6.15	151.93	149.40	146.30
Government 10-year†	4.83	–	4.89	4.89	5.14

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS; OTHER STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; OTHER STRAIGHTS; D MARK STRAIGHTS; FLOATING RATE NOTES; CANADIAN DOLLAR STRAIGHTS; AUSTRALIAN DOLLAR STRAIGHTS; STERLING STRAIGHTS; EQUITY WARRANTS; CONVERTIBLE BONDS; WARRANTS

	Issued	Bid	Offer	Chg on day	week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on JANUARY 27

Ringier launches $300m bid for Krueger

By John Wicks in Zurich

RINGIER, the Swiss printing and publishing house, has bid $10.50 per share, or about $300m in total, for W.A. Krueger, one of the 10 biggest US commercial printers. The bid is backed by the board of Arizona-based Krueger, and a definitive agreement is expected this week.

The US concern, which separately announced sales of $372.2m last year and net operating profits of $11.3m, down from $16.9m in 1987, has eight printing plants and about 3,600 employees.

A specialist in the production of magazines, advertising materials and books, it already operates a joint venture with the Swiss group. This company, Krueger Ringier, has annual sales of about SFr360m ($234m).

The family-owned Ringier concern, with 1987 turnover of SFr651m, is Switzerland's leading printer. It also publishes such titles as the tabloid daily Blick and the magazine Schweizer Illustrierte.

● *ASCOM HOLDING*, the Swiss telecommunications concern, reports an 11 per cent increase in group turnover from SFr2.15bn to SFr2.39bn last year, while new-order value increased by 10 per cent to SFr2.4bn.

The Berne-based parent company says group profits are expected to have risen more rapidly than sales. With 1987 earnings at SFr40.8m, this would mean last year's consolidated profits were at least SFr45m.

● *GEORG FISCHER*, the Swiss engineering company, recorded a 6 per cent rise in group sales last year to SFr2.2bn. New order value improved by as much as 11 per cent, "with a rising tendency in the second half."

Results were "substantially better" in 1988, with a rise in both operating and net profits. In the previous year, group earnings had risen from SFr37m to SFr39m.

The group is to make capital investments in 1989 similar to the SFr130m booked for each of the two past years.

Memory chip turnaround boosts Texas Instruments

By Louise Kehoe in San Francisco

TEXAS INSTRUMENTS, the US semiconductor and electronics manufacturer, reported increased sales and earnings for 1988, boosted by strong memory chip sales.

The company also announced several measures designed to limit the effects of an expected slowdown in its key semiconductor and defense electronics businesses in the coming year.

Net income for 1988 was $366m or $4.05 per share, compared to $321m or $3.74 in 1987. Sales rose to $6.3bn from $5.6bn.

For the fourth quarter, TI earned net income of $95m or $1.04 per share on sales of $1.7bn. These results include a pre-tax charge of $17m associated with a voluntary redundancy programme that is expected to reduce the workforce by 500 to 1000 people.

In the same period a year ago the company reported net income of $91m, or $1.02 per share, on net sales of $1.5bn.

TI's semiconductor business produced record sales of more than $3bn in 1988, the company said. "This success was due to a turnaround in our semiconductor memory business, which became a major profit generator for the company," said Mr Jerry Junkins, chairman.

"TI is pursuing several strategic approaches to deal with the volatility of the semiconductor market, especially the memory segment" said Jerry Junkins, TI chairman.

"We are building a dedicated manufacturing line for prototyping future generations of advanced semiconductor products so that development activities will not compete for capacity with production of current products. This will be important for development of the 16-megabit DRAM, as well as advanced logic products.

Reiterating previously announced plans for a joint development agreement with Hitachi in 16-megabit DRAM technology and a major new DRAM plant in Italy, Mr Junkins also said the company "expects to receive financial support from major DRAM customers and from governments willing to provide financial incentives."

TI's defense electronics business also achieved record levels of sales and profits for the year. The company said, however, that it anticipates a slowdown in this segment. TI lost money on its computer systems business, Mr Junkins said. He announced plans for increased emphasis on applications software and system-level solutions.

Volkswagen to reshape commercial vehicle side

By Our Financial Staff

VOLKSWAGEN, the West German motor group, said it would reorganise its commercial vehicles activities into a division with a large degree of independence from February 1.

The company said the reorganisation was aimed at putting the company back at the top of the European commercial vehicles market and improving earnings.

Activities such as development, production and sales would be brought together in Hanover under Mr Bodo Dencker, who currently coordinates the three compound machinery plants at Salzgitter, Brunswick and Kassel.

Mr Denker was chief of the Hanover commercial vehicles plant between 1980 and 1984. He then became vice-president in charge of production at VW's subsidiary, Volkswagen of America.

Moody's to rate Eurobonds of all international groups

By Norma Cohen

MOODY'S Investors Service, the debt rating agency, will begin assigning ratings to all Eurobond issues of international companies, even where the issuer has not sought a rating and has provided no supplementary information to aid the rating process.

In a letter circulated to investment banks in Europe last week, Moody's said it was taking the step to meet the demands of investors who rely on ratings to help them make credit decisions. Moody's, whose revenues come from fees paid by those seeking ratings, said it will not charge issuers for the unsolicited bond ratings.

The move came just after EuroRatings, the London-based agency established to challenge the dominence of its two, much larger US competitors, closed its doors. A Moody's spokesman said the expanded service was "not at all" related to this.

He also said he did not believe that offering credit ratings at no charge would discourage issuers from later seeking a fuller analysis on a fee-paying basis.

In its letter Moody's said its latest move was an expansion of its existing policy of providing ratings for segments of the market when investors have expressed a desire for such ratings. It already provides unsolicited credit ratings for Eurobonds of US companies, all Euroyen issues and all sovereign and sovereign-related securities.

Meanwhile, Standard & Poor's, Moody's main competitor, said it intended to retain its current policy of only assigning Eurobond ratings to issuers which request them. S&P said it was particularly concerned about basing credit assessments for European companies solely upon publicly available information because disclosure rules are very limited in Europe.

In the US and abroad, the rating process includes obtaining large amounts of supplementary financial information about the company, including discussion of acquisition and expansion plans, that are not made public. Assigning ratings without that information could dilute the quality of the credit rating, it said.

RAS and Allianz plan to form Italian bank

By Alan Friedman in Milan

RIUNIONE ADRIATICA di Sicurta (RAS), Italy's second biggest insurance group, has announced plans to form a Italian bank in partnership with Allianz Versicherung, the West German insurer that owns majority control of RAS.

Mr Umberto Zanni, chairman of RAS, said at the weekend he had already received approval from the Bank of Italy for the creation of Rasbank, in which Allianz will have a 25 per cent share stake. The idea of the new bank is to specialise in investing savers' funds outside Italy.

Rasbank is the third new private bank to be authorised by the Italian central bank over the past 12 months; the other two are Banca Euromobiliare, a small Milan bank which is part of the Midland-Euromobiliare investment banking business, and a bank to be set up by Italy's association of co-operatives.

It is believed the new bank will start with an initial capital of L25bn ($18.5m).

Nedlloyd to commission ships

By Laura Raun in Amsterdam

NEDLLOYD, the Dutch shipping and transport group, has invited bids for five container ships and options for another 10 at an estimated cost of Fl 1.5bn ($735m). About 10 shipyards in Europe and the Far East have been invited to tender.

The contract will comprise a firm order for five 3,000 TEU (20 ft container equivalents) vessels, an option for another five 3,800 TEU vessels and an option for five 4,600 TEU vessels.

The ships are to be delivered between 1991 and 1994 and will expand Nedlloyd's container fleet of 28 vessels, of which 12 are chartered and 16 owned. About 17,000 new containers have also been ordered in an effort to strengthen the group's container shipping business.

One of the shipyards invited to tender is Van der Giessen-de Noord of the Netherlands, which built three container vessels for Nedlloyd in the early 80s.

Credit warning on Stone and Bathurst

By Robert Gibbens in Montreal

TWO US credit-rating agencies and one Canadian agency are warning investors that the risks of holding the debt of Stone Container and Consolidated-Bathurst, the two forest product concerns, have increased because of Stone's proposed US$2.2bn takeover of Bathurst.

Standard & Poor's and Moody's, said they were reviewing Stone's credit-rating, and it may be reduced because Stone, which already has US$770m in long-term debt, is assuming Bathurst debt of nearly US$400m in the deal.

They rate Stone's existing senior subordinating debt Double B to Double B minus, or below most institutional investors' standards.

Canadian Bond Rating Service, Montreal, put Bathurst paper and long-term debt on creditwatch, while the takeover's impact on the company's debt structure is fully assessed.

Liffe and TSE in futures talks

By Katharine Campbell

A DELEGATION from the London International Financial Futures Exchange (Liffe) is in Tokyo this week to meet Tokyo Stock Exchange (TSE) officials and explore co-operation regarding the Japanese government bond (JGB) futures contract listed in London.

London's JGB future has languished since its launch 18 months ago, and now trades only a nominal equivalent of Y40bn to Y50bn ($387) a day. In the home market, the JGB traded on the TSE regularly clocks up more than Y5,000bn a day, often five times underlying cash market volumes.

Liffe's aim is to bring its product closer to the one on the TSE, says Mr Michael Jenkins, chief executive. This would entail changing the specifications of the contract, which is settled in cash, rather than in bonds, as Tokyo.

Then some kind of unspecified link could be created, that would allow participants to offset existing positions when one market was closed. Thus London could feed off some of Tokyo's generous liquidity.

To date, liquidity here has been substantially hampered by the configuration of the cash JGB market in Japan. Hedging is tricky, for a number of reasons, and indeed the bulk of Tokyo's own futures volume stems from so-called speculative trading. But London's business would naturally be driven by hedging rather than by speculative interest.

Mr Alex Lamb at Nomura said he was "enthusiastic" about the prospect of an offset mechanism.

UBS to quote 'grey' SFr bond prices

By Katharine Campbell

THE UNION Bank of Switzerland will begin quoting "grey market" prices in Swiss franc foreign bonds from February 1.

"Grey market" trading, a technique customary in Euromarkets, occurs when new issues are traded before the public subscription period ends.

UBS becomes the second leading Swiss bank to participate, after Crédit Suisse began quoting prices in June. Previously, the practice had been restricted to a handful of foreign banks, mostly in Geneva.

UBS's entry is made with reluctance. But Mr Armin Mattle, a UBS executive, said the bank had no choice but to quote in the grey market. This refers to the collapse of an agreement last year with Crédit Suisse under which the latter undertook not to quote grey prices on UBS-led deals. When it began making grey prices in UBS deals this year, Mr Mattle's hand was forced.

Mr Mattle contends that, judging from experience in the Euromarkets, grey market operations "reduce profits and drive away genuine buyers."

But as an outsider, UBS was unable to pick off what it considered to be underpriced issues, as other banks were frequently unwilling to deal. Without the Crédit Suisse arrangement, it was in danger of losing control of pricing its own deals. Some traders agree prices are driven down in grey trading, often by foreign banks lacking the placing power of the indigenous SBS. Others argue the grey market has enhanced liquidity in what was an illiquid environment dominated by top domestic banks.

UK COMPANY NEWS

The difficulties of assessing the right price

Nikki Tait on the recent upsurge in management buy-outs and the suspicions they can arouse

MANAGEMENT buy-outs have never been an easy subject.

On the one hand, when a loan-backed management vehicle makes an offer for an entire quoted company, thereby moving it into the private sector, there is the inevitable suspicion that directors know more about the business than the market. Who, then, can assess that the premium they are offering is fair?

On the other, such bids usually raise the thorny issue of shareholders' time horizons. Managements tend to claim that they are required to provide smooth earnings growth – and associated share price performance – regardless of underlying, arguably unavoidable, fluctuations in their business or stock market swings.

Just to complicate the issue, there is the lurking suspicion that some announcements of management bids may be a touch mischievious. What better way, after all, to add a little spice to a wilting share price or hang a convenient "for sale" sign?

Such problems notwithstanding, the October 1987 stock market crash has certainly activated interest in management buy-out (MBO) bid possibilities – although most merchant bankers concede that the fall-off rate between client inquiries and deals brought to fruition is particularly high in this area.

Ahead of the crash, MBO bids could be counted on the fingers of one hand - and not all, witness Molins, were successful. By contrast, the number of publicly-notified MBO bids over the past 12 months has stretched into double figures.

That said, the problems which surround such deals show little sign of diminishing. True, the offers for Dwek Group and Invergordon Distilleries sailed through smoothly, as did the £250m Virgin bid. However, in all three cases, there were supportive controlling shareholders at the outset, although Virgin's decision to go the "scheme of arrangement route" meant that this was not a direct deciding factor.

Fresh produce distributor Glass Glover, on the other hand, had a long, but ultimately successful tussle withScottish Amicable, the Glasgow-based instiution. Equally, British Syphon is currently facing resistance from Mr Nat Puri, who holds a quarter of its shares – although last week the management's offer still went unconditional. Mooted MBO bids for the likes of Suter and Prestwich have come to nothing.

Two other situations remain "live" – the Ryan International offer from the newly-formed Digger, which closes tommorrow, and Magnet. The latter is at embryonic stage only, but if the plan comes off, it will become the largest such bid to date, topping the £500m-mark.

The much-smaller Ryan deal, on the other hand, offers a classic example of the difficulties which these deals pose. Back in 1985, a group of investors led by Mr Crispian Hotson hauled Ryan, a Cardiff-based coal recovery company, back from impending receivership via a £4.76m refinancing package. A good deal of reorganisation ensued, and in late-1986, Ryan acquired Derek Crouch for about £28m – retaining its open-cast coalmining operations but selling on the housebuilding side.

Profits duly improved – from a £587,000 pre-tax loss in 1984 to £10m profit in 1987, when it finally returned to the dividend list. However, fully-diluted earnings per share showed only marginal progress in recent years, and the £10m figure also came after a £1m reduction in the depreciation charge. Gearing, meanwhile, rose to about 100 per cent by mid-1988.

Earlier this year, the company – which currently argues the need for "significant capital expenditure" – is believed to have been advised against new equity funding by its then brokers, James Capel. In September, however, a solution appeared in the form of a merger with Carless, the oil independent. When first announced, this paper-only offer valued Ryan at £92m.

Unfortunately for Ryan, the deal fell through when the oil company itself became victim to a bid. Within a couple of months, Ryan had announced the MBO offer, valuing the company at just under £70m. With it came a forecast that 1988 profits would be just £5m before tax.

Not all shareholders have been enthused. For a start, there is the discrepancy with the Carless offer. Moreover, although Ryan's interim profits dipped 22 per cent, the full-year forecast generally surprised the market. At the interim stage, Mr Hotson was hopeful that a new long-term supply agreement in Belgium would be finalised "very shortly". He has since suggested that the failure to conclude this by end-1988 accounted for some £3m of the profits shortfall.

Looking more closely at the deal, Digger has arranged a seven-year £70m loan and revolving credit facility, on which the margin is 2.25 per cent over LIBOR, plus a further £17.5m subordinated loan facility with a margin of 4 per cent over LIBOR – apart from shareholder subscriptions totalling about £27m. It takes little mathematics to see that, without some improvement in profitability, such financing would not be long sustainable.

Perhaps the covenants between Digger and its banks are indicative. These suggest that minimum net worth of the company must be just £24.3m in 1989, edging up to £28.9m by 1991, but then rising to £34.7m, £42.6m, £52.3m and £63.9m in the next four years.

Even Mr Hotson, himself, has argued that the deal is not so much management seizing control, but an attempt to replace investors whose horizons are necessarily short-term with those who will take a longer view. Nevertheless, it does seem from the share subscription agreement, that some thought may be given to bringing Digger back to the market in the early 1990s.

All that said, the general feeling last Friday was that the Digger deal will go through. Its shares are only 5p adrfit from the 140p offer price and analysts seem to feel that, with no rival bidders, the 35 per cent premium to Ryan's price pre-Digger should just about suffice.

That, in turn, tends to illustrate the prevailing institutional attitude to MBO bids. Many stress that the issue is less a matter of principle than one of price. "We assess each bid on its merits", is one typical comment. "The management obviously know much more than we do, but if the price looks high enough and the board recommends it, financial interest dictates that we accept".

This, in turn, makes the calibre of non-executive directors – and the extent to which they push management to seek better solutions at the expense of the buy-out scheme – critical. Says another institution: "It's very fundemental".

But, at the end of the day, whatever their reservations, most institutions concede that practicalities also weigh in. Not least is the problem and cost-effectiveness of organising timely, concerted action.

Perhaps the most encouraging aspect of this difficult subject is the recent recovery in the stock market. True, there have been false dawns before and widespread equity funding may remain difficult for a while yet. But until the principal advantage of a quote returns, frustrated managements can hardly be blamed for glancing to the banks – and the general discomfort with MBO bids looks set to persist.

UK COMPANY NEWS

Thomson keeps options open in Plessey takeover battle

By David White, and Paul Betts in Paris

FRANCE'S Thomson electronics group does not rule out making a fresh move in the Plessey takeover battle in the UK despite the collapse of the attempted international counter-bid for the General Electric Company earlier this month.

When GEC and West Germany's Siemens launched their hostile bid for Plessey late last year, Thomson said it could not act as a "white knight" for the target company since it could not match the £1.7bn offered by the Anglo-German grouping. However, in an interview with the Financial Times, Mr Alain Gomez, chairman of the nationalised French concern, made clear he was not closing any options.

In extremely cautious replies, he would not rule out possible Thomson involvement either in an alternative bid for Plessey or in acquiring interests hived off in the aftermath of a successful takeover of Plessey by GEC/Siemens.

The GEC/Siemens plan is currently under scrutiny by the Monopolies and Mergers Commission and by EC competition authorities. The UK Ministry of Defence is concerned about the potential loss of competition in key areas of military technology.

When pressed to clarify his strategy for the UK, Mr Gomez said: "We exclude nothing that would be in our interest."

He said he was trying to make Thomson-CSF, the group's quoted defence electronics subsidiary, of which he is also chairman, into a less "France-centred" company.

Mr Gomez firmly denied, however, that his group had taken any stake in Plessey.

Thomson was an ally in the Metsun consortium headed by Sir John Cuckney which tried to mount an offer for GEC following the latter's bid for Plessey. But Mr Gomez said he was not a party to contriving the Metsun plan. "They came to us," he said.

The French group was continuing to hold separate talks with British Aerospace, Mr Gomez said. These related mostly to business areas in which both Thomson and BAe were active, notably missile systems.

Thomson was also holding similar contacts with "a certain number" of other companies, he said.

In France, talks between Thomson-CSF and the state Aerospatiale group aimed at a merger of their avionics interests were progressing well, Mr Gomez added, saying that he hoped to announce a firm agreement "rather soon." The planned link-up would create Europe's largest avionics concern, far ahead of GEC-Marconi.

This plan was unrelated to the talks with BAe, which did not touch on the avionics sector, he made clear.

Thomson-CSF is expected to show a 1988 net profit of between FFr 2.8bn (£260m) and FFr 2.9bn, rising from FFr 2.6bn the previous year, on turnover of FFr 33bn.

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Phoenix continues to rise from the ashes

Nick Garnett takes a look at a steady trend rolling through the steel industry

THE RECENT announcement that United Engineering Steels, Britain's second largest steel company, is taking over British Bright Bar, a West Midlands bright steel supplier, underlines a steady trend rolling through the industry.

Since it was pulled apart and put back together in different form during the early and mid-1980s, a less fundamental but nevertheless important process of ownership restructuring is continuing to reshape parts of the industry.

More than half a dozen steelmakers or steel finishers have been involved in this over the past 18 months. The moves partly reflect the growing confidence of the so-called Phoenix companies which emerged during the restructuring, and the policy of some companies to strengthen their niche positions.

By far the biggest recent move was the flotation of British Steel in December, effectively putting it back into the private sector since its nationalisation in 1967.

But other changes have been underway among the 50 members of the British Independent Steel Producers Association (Bispa).

These companies, some of which are up to 50 per cent owned by British Steel, accounted for about 4.2m tonnes of the 19.2m tonnes of crude steel made by the UK last year.

This is a slightly smaller proportion of the total than they achieved in 1987, reflecting the big production increases achieved by British Steel.

Bispa companies also account for about one-third of UK output of hot-rolled products and almost all special grade steel for engineering industries.

While companies have got their heads down to take advantage of buoyant demand and higher prices, many have found time to tidy up the industry's boundaries.

Glynwed has been strengthening its position in low volume hot and cold rolled products and in bright drawing. Its steel operations made a profit of £17.3m in 1987 on sales of £180m.

Between 1980 and 1985 it made a number of acquisitions including Ductile, a hot and cold roller, Longmore a bright drawer, and the bar turning facility of Leabrook. In 1986 it added Barlow Bright Steel, another bright drawer, and Firth Cleveland Steel, a narrow carbon strip producer.

It continued this acquisition programme last year, acquiring Amari, a steel stockholder, and JB & S Lees, which makes similar products to Firth Cleveland.

"Our strategy is to go into higher value added products and to continue developing our niche area products," says Mr Des Gripton, chief executive of Glynwed's steel operations.

Glynwed is a large supplier of steels for the hand tool industry, especially for saws.

Two of the main companies formed under the Government-supported Phoenix programme for separating the private from the then public steel sector have changed their ownership.

UK STEEL DELIVERIES*

	tonnes(m)
1982	3.33
1983	3.44
1984	3.74
1985	3.84
1986	3.74
1987	3.85
1988	4.60†

* Domestic and export, including those (now small) from British Steel for main product types supplied by Bispa members: reinforcement, rod, bar, light sections, bright bars, cold rolled narrow strip. Excludes wire
† Estimate

ASW (formerly Allied Steel and Wire), the third largest UK steel company set up in 1981 jointly by British Steel and GKN, was sold 15 months ago in a £181m deal involving a consortium, including City institutions and its management. British Steel retained a 20 per cent holding.

In the middle of last year, ASW was successfully floated on the main market in an offer valuing the company at £97.6m. Sheffield Forgemasters, the sole remaining UK supplier of large steel castings and forgings, was purchased by City institutions and senior managers in a long drawn out deal last autumn from its then owners – British Steel and Johnson & Firth Brown.

UES, formed in 1986 as the last Phoenix company and jointly owned by British Steel and GKN, is also beginning to show its independence and flex its muscles.

The company, which claims to be Europe's largest special engineering steels producer with total sales in 1987 of £577m, bought last year a controlling interest in Woodstone Rolling Mills, a speciality steel bar maker. It also took over in 1988 the melting shop interests of FH Lloyd.

The purchase of British Bright Bar (BBB), another Phoenix business set up in 1983, really involves a transferring of holdings. British Steel and GKN have transferred their 100 per cent interests in BBB to UES which they also own. However, BBB is a customer of UES so this improves UES's vertical integration.

UES has also merged its ferrous scrap metal business with that of the J. Saville Gordon Group. The joint venture agreement includes a provision allowing UES to buy out its partner's ferrous scrap interests.

This is part of the restructuring of the UK scrap industry in which some other steel companies are involved.

Sheerness Steel, the Kent-based subsidiary of Co-Steel of Canada purchased in December Parry Brentford Holdings, a London scrap merchant.

The probable emergence of a more open European market in the 1990's is also having an impact. Beltrame, a highly efficient Italian mini-mill operation has bought an option on land in Lincolnshire to build a rolling facility.

Last month, the CI Group, a small engineering and steels group announced that it was buying Société Metallurgique de Brevilly, a hot rolling mill at Ardennes, France.

Some steel companies still use poor production facilities with old fashioned equipment. The industry believes though that only a limited amount of rationalisation is now on the cards for the industry.

However, the future of UES's Brymbo works in North Wales might be in doubt once the company's new bloom caster in Rotherham is fully running.

There is also the question of whether GKN will want to maintain, in the long run, its involvement in steel, a product from which it has been withdrawing over a number of years.

Bispa companies have done well out of last year's strong demand. Home deliveries were up 14 per cent, total deliveries by 11 per cent.

Profits for these companies were uniformly higher, partly due to price increases averaging around 4.5 to 5 per but ranging up to 20 per cent for stainless flats.

As a sign of strong trading conditions, Mr Harry Morris, chief executive of Sheerness, says production last year was a record at 702,000 tonnes, up from 575,000. ASW announced in September its first interim results since flotation, increasing pre-tax profits from £10.2m to £13.2m.

Some steel companies believe the industry is now at a cyclical peak. "But people are not pessimistic," says Mr Ian Blakey, Bispa's chief executive. "They are not expecting it to fall off a cliff or anything like that."

Independent Investment asset value surges 34%

INDEPENDENT Investment Company, the Ivory & Sime-managed investment trust which was involved in complex reorganisation of three other trusts in the same stable last year, saw a 34 per cent rise in net asset value to 69.5p at end-December.

Managers concede that part of the uplift came as a result of the reconstruction - whereby shareholders in Atlantic Assets were offered the choice of moving into a new offshore fund or into Independent itself.

Because certain assets were also acquired from Atlantic at a discount effectivly subsidised by shareholders taking the offshore fund route, Independent's net asset value was enhanced. However, Independent's managers say that the progress during the year was still largely the result of increases in value in some of the larger investments.

Molinare falls to £65,000 loss

A low level of activity in its post-production division and an exceptional payment of £162,000 adversely affected the performance of Molinare Visions, which reported pre-tax losses of £65,000 for the six months to November 30 1988. In the 11 months to November 30 1987 there were profits of £320,000. Turnover was £7.73m (£13.58m for 11-month period).

Baldwin

Baldwin, leisure, printing, building materials concern, has reported six months pre-tax profits of £2.15m to the end of October 1988, the company's new year-end. Profits of £1.05m were achieved in the year to April 30 1988. There is a dividend for the six months of 1.15p, making a 3.15p total for the 18 months.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- GT Japan Trust, Haynes Publishing, Scott Pickford, Sommerville (William), Textured Jersey, Welsh Industrial Inv Tst.

Finals- Allied Textile, Berkeley Govett, Bulough.

FUTURE DATES

Interims-

Amstrad	Feb. 14
Harvey & Thompson	Jan. 31
Riva	Feb. 14
Finals-	
British Petroleum	Feb. 16
Securicor	Feb. 7
Security Services	Feb. 7
Updown Inv	Feb. 27

Whitegate expansion

WHITEGATE Leisure, a leisure company with a strong interest in healthcare via October's acquisition of RealCare Homes Business, a nursing homes concern, reported pre-tax profits of £66,000 for 1988, its first year of trading on the Third Market. Turnover was £392,000.

Cost of sales was £375,000 and administration expenses were £100,000, leaving an operating loss of £83,000. Interest receivable totalled £149,000. Loss per share was 0.02p.

The company has bought the Waterfront Hotel and Club in Kingston upon Hull for £950,000 plus stock at valuation, payable in cash. The 32-room leasehold hotel was valued at January 1 1989, on the basis of a fully operational business. at £900.000.

Postal strike limits KLP to 5% increase

KLP Group, the sales promotion company which tucked 17 acquisitions under its belt during the 1987-88 year, raised its turnover for the period by 76 per cent to £60.58m but achieved a pre-tax profits rise of only 5 per cent to £2.57m.

The directors said that was a result of the postal strike, which had an adverse effect on the group's direct-marketing activities. Other adverse factors were rationalisation costs connected with overseas interests and losses run up by certain discontinued businesses.

Although earnings worked through 4.42p lower at 13.73p per share the dividend for the year is being increased by 1.5p to 6.5p via a final of 4.4p.

Telecomputing in the red

A VIRTUAL break-even during the second six months left Telecomputing, a USM-quoted developer of computer software products, with a loss of £194,000 pre-tax for the full year to the end of September 1988. That compared with profits of £886,000 for the previous year. Turnover declined from £3.41m to £3.11m and the loss per 10p share emerged at 1.83p (earnings 12.14p). The final dividend is omitted, leaving shareholders with 0.65p (1.5p) for the year.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

BTR Warrants (Section: Industrials).
British Steel (Industrials).
Dai Ichi Kangyo Bank (Banks).
Echlin Inc. (Americans).
Enterprise Oil 10¾% Uns. Ln. Stk. 2018 (Oils).
Tollgate Holdings (Industrials).
Williams Holdings 8.0p Cum. Conv. Red. Pref. (Industrials).

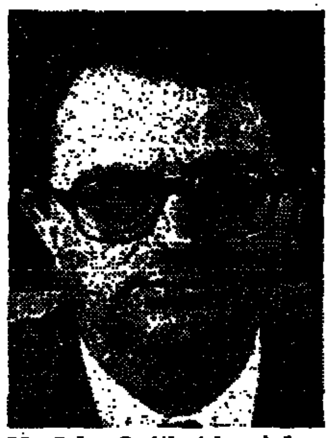
FINANCIAL TIMES STOCK INDICES

	Jan. 27	Jan. 26	Jan. 25	Jan. 24	Jan. 23	Jan. 20	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.78	88.39	88.53	88.37	88.35	88.15	91.43	86.18	127.4	49.18
Fixed Interest	97.12	97.25	97.03	96.91	97.10	96.92	98.67	94.14	105.4	50.53
Ordinary	1638.9	1601.3	1580.8	1580.7	1569.5	1563.3	1638.9	1349.0	1926.2	49.4
Gold Mines	173.9	173.2	171.0	170.6	169.0	164.3	312.5	160.7	734.7	43.5
FT-Act All Share	1034.11	1010.70	1000.63	1001.08	993.14	988.99	1034.11	870.19	1238.57	61.92
FT-SE 100	2005.9	1959.8	1939.0	1941.1	1924.7	1917.5	2005.9	1694.5	2443.4	986.9

APPOINTMENTS

John Govett Group posts

■ JOHN GOVETT has made the following appointments: Mr Richard Royds, previously managing director of Wardley Unit Trust Managers, joins John Govett Unit Managers as managing director. Mr Adam Parkin, previously at Foreign and Colonial, joins John Govett & Co as fixed interest director. Mr Nick Watts, previously international investment manager at Citibank, has become investment director at John Govett & Co. Mr Hans Thykier, formerly private client director at Foreign and Colonial, has been appointed head of John Govett & Co's offshore private client division.



Mr John Smith (above) has been apppointed managing director of TAYWOOD ENGINEERING, the design and research company in the Taylor Woodrow Group. He was a divisional director of Taylor Woodrow Construction.

■ JOHN WADDINGTON has made the following appointments within its subsidiary companies. Mr Stuart Hall has been appointed managing director of Johnsen & Jorgensen Plastics. Mr Hall was managing director of Alexander Pettigrew, one of Waddington's printing companies. He is succeeded as managing director at Alexander Pettigrew by Mr Alistain Marr who was previously finance director.

Mr Richard Wade is to become managing director of Label Converters on March 1. He was previously managing director of another label company in the group, Waddingtons of Gateshead, where he will remain a non-executive director. He will also remain chairman of Mono-Web.

Mr Wade succeeds Mr Mike Frost at Label Converters. Mr Frost will remain as a non-executive director and a consultant to Waddingtons group of label companies.

Mr Robert Blow is joining Label Converters as production director. He was production manager at Norprint.

At Waddingtons of Gateshead Mr Richard Brearley will become managing director and Mr Rob Pollock assistant managing director.

■ Mr Brian Maurice Cowley is joining BRIDPORT-GUNDRY as group managing director on February 1. He was managing director of the building products division of the Newman Tonks Group.

■ Mr Ian D. Ripley has been appointed a director of RYLANDS-WHITECROSS, a member of the TWIL Group. He is sales director of TWIL Group Marketing.

■ CULLIS RAGGETT, the Lloyd's broker, has elected Mr David Evans as its chairman. He comes from Sedgwicks where he was director of its international company.

■ BARCLAYS TRAVELLERS CHEQUES has made Mr Peter Haward its marketing and sales director. He joins Barclays from the Thomas Cook Group where he was managing director of the international travel division.

■ FINANCIAL PRINT & COMMUNICATIONS has made the following board changes: Mr Bob Bonney has been appointed deputy managing director. He is currently in Tokyo, where he is establishing FPC's new office. Mr Mike Bantick takes over as group sales and marketing director. He was appointed sales director in 1986. Mr Nigel Horton, sales manager responsible for clients operating in international capital markets, has been appointed sales director.

■ Mr Leslie Bond, a director of Rank Organisation and managing director of Rank Leisure Developments, has been appointed a non-executive director of EXPORT NETWORK.

■ Mr Richard Berkley has been apppointed a director of SEYMOUR ADELAIDE & CO, responsible for commercial mortgage broking and participation lending.

■ At MIDLAND JOINERY Mr Philip Thompson has become sales and marketing director. He was sales director for the London and eastern region at Boulton and Paul.

■ DAF INTERNATIONAL has appointed Mr Richard Morley as its business development director. He was managing director of Austin Rover Ireland.

■ Mr Jim Marshall has joined the holding board of BLUEBIRD TOYS as group finance director. He was finance director of Freshbake Foods. Mr Paul Humphreys is appointed director and general manager of Bluebird Toys (UK) and a director of Bluebird Toys (International). Mr David Carthy has become commercial director of Bluebird Toys (UK) and a director of Bluebird Toys (International). Mr Malcolm Taylor is made works director at Bluebird Toys (UK).

■ Mr Malcolm Field, group managing director of W.H. Smith Group, has become a non-executive director of MEPC.

■ Mrs Penny Hall has been made company secretary of THE NATIONAL HOME LOANS CORPORATION. She was previously assistant secretary and the company's solicitor. She replaces Mr Tony Mohr who was recently appointed finance director.

■ Ms Elizabeth Tuck has become finance director of the electronics sector of CHLORIDE GROUP.

■ Mr Gregory W. Fayers has been appointed a director of EXECUTIVE GOLF CLUBS.

Mr Malcolm L. Packer (above) has joined the board of SWAN NATIONAL, the TSB Group commercial holdings company.

■ Mr David Smith has been appointed chief executive of ATHENA INTERNATIONAL, a subsidiary of Pentos. He was group managing director of a number of book publishing companies.

■ Following the acquisition by Aerospace Engineering, Mr Michael John West has been appointed managing director and chief executive of JOHN CURRAN.

CONSTRUCTION CONTRACTS

Building industry buoyant

British construction orders continued to race ahead during the final months of last year, despite interest rate rises and some fears that the economy might be overheating, *writes Andrew Taylor.*

Figures just published by the Environment Department show that orders received by contractors during the three months to the end of November were 20 per cent higher than in the corresponding period in 1987. They were also nine per cent higher than in the preceding three months.

Private industrial and private commercial orders, as in previous months, showed the biggest gains.

Private commercial orders according to the Department were 14 per cent higher than in the preceding three months and 47 per cent higher than in the corresponding period in 1987.

Private industrial orders, on the same basis, were 21 per cent and 53 per cent higher. Private housebuilding orders were two per cent higher than in the preceeding three months and eight per cent higher than in the corresponding period a year earlier.

Public housebuilding showed gains of 32 per and 15 per cent but represents a much smaller proportion of the total housing market.

The only sector to show any decline was public works which were unchanged on the previous three months but 14 per cent lower than on the corresesponding period in 1987.

This sector of the construction market is likely to be reduced still further by the Government's continuing programme of privatisation.

The figures, seasonally adjusted, were compiled by converting all prices to 1985 values to remove distortion due to general price inflation.

Storebaelt railway tunnels

A/S Great Belt has signed a contract, worth £7.9m, for the detailed design and general supervision for the two eight kilometre railway tunnels under the eastern channel of the Storebaelt.

The contract was awarded to the Danish consulting engineers COWICONSULT A/S in joint venture with British company MOTT, HAY & ANDERSON INTERNATIONAL, a member of the Mott Macdonald Group.

Aggregates supply warning

By Andrew Taylor, Construction Correspondent

The British construction industry could be facing serious shortages of aggregates, one of the biggest used building materials, leading producers will warn on Thursday when they announce record sales for last year.

According to the British Aggregate Construction Materials Industries sales of aggregates reached 290m tonnes last year, a rise of more than a quarter during the past two years.

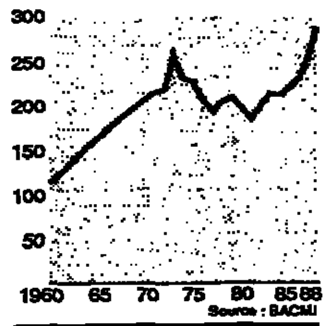
It says planning permissions for new quarries are running at about half the rate needed to maintion present extraction rates and that shortages will occur unless local authorities allow new quarries to be started.

There had been a particularly sharp fall in planning of permissions for rock quarries, mostly limestone or igneous rocks, which are crushed to produce aggregates.

The industry however is more concerned about prospects for replacing sand and gravel quarries which have a much shorter life of typically five to six years compared with 30 to 40 years for a rock quarry.

Crushed rock, which has been gaining market share and is produced mostly from a small number of super quarries, accounts for more than 55 per cent of aggregate sales. This compares with abpout 37 per cent for land-won sand and gravel and about six per cent for sea dredged sand and gravel.

Total Aggregate Sales



Increased demand for aggregates reflects a sharp rise in UK construction output, particularly over the last two years, and the greater use of aggregates in building generally, according to a major study of the industry just published by stockbrokers James Capel.

It says increased sales reflect: higher quality specifications for new roads; increased road maintenance and repairs which require large volumes of aggregates; increased sales of downstream products such as concrete blocks and bricks and greater use of poor quality land which requires better foundations

The brokers say aggregate sales are likely to rise by a further three per cent to four per cent this year based on current construction order books. *It says growth may level out* in 1990 before accelerating again in the early 1990s

Tarmac, the broadly based building materials and construction group and ARC, a subsidiary of Consolidated Goldfields, each account for about 17 per cent of the aggregates market, according to Capel.

RMC with 10 per cent of the market and Redland with six per are the next two biggest producers

North Circular Road link

CEMENTATION CONSTRUCTION, the civil engineering arm of Trafalgar House's building and civil engineering division, has been awarded the £60.5m A406 Chingford Road contract by the Department of Transport.

The contract award follows competition with other major UK contractors for this crucial road link which will bring relief to residents in the London Borough of Waltham Forest and road users travelling through this busy area on *north east London.*

Cementation Construction will commence work on the scheme which is located on, and alongside the A406 North Circular Road from west of the A112 Chingford Road to the east of Hale End Road early in April. Work is scheduled to take two and a half years to complete.

The project encompasses improvements to the North Circular Road, together with the construction of five slip roads and new roundabouts at Chingford Road, Winchester Road and Hale End Road. Modifications will also be made to local roads where necessary.

The new trunk road, of flexible pavement construction, will be dual three-lane carriageway for about 1.8km and dual two-lane carriageway for about 1.6km and, will be depressed between retaining walls for almost all of its length. Construction of the walls will be mainly of the diaphragm panel and contiguous bored pile type, propped below carriageway level.

The walls will form the support for two 100 metre extended overbridges, a steel and concrete composite overbridge, and two footbridges. Five subways and two footbridges will be supported independently.

Cementation Construction will be responsible for all the associated works such as traffic management, drainage and lighting.

Cementation Projects, another Trafalgar House company, has been awarded a management contract, worth about £9m, for the construction of two rail underbridges for a section of the A406 North Circular Road by British Rail London *Midland* region.

The contract has been programmed in advance of the road improvement scheme planned between Hanger Lane and Harrow Road. Work on the twin-span bridges will start shortly and the project is scheduled for completion in mid 1991.

Sainsbury supermarket for Cobham

A £7m contract from supermarket giant Sainsbury, and one for £6m from Cyanamid, plus other contracts, have boosted the order book of WARINGS CONTRACTORS to around £40m.

The Sainsbury contract, at Cobham, Surrey, is for its flagship supermarket with coffee shop, and car parking for 568 cars. The main superstore comprises a single-storey concrete framed building with facing brickwork under a tiled pitched roof to harmonise with the area. The adjoining two-storey element is part concrete and part *steel-framed.*

In Hampshire Cyanamid (GB) is to award Warings a £6m design and construct contract for a medical research centre to be built in the north west corner of its Fareham Road site.

The three-storey steel-framed building is clad in steel sheeting with deeply recessed windows *in solar reflective* glass and has a total floor area of 4,000 sq metres on piled foundations.

Sheltered housing in Brighton

F.J.C. LILLEY, the Glasgow-based construction and property group, has won orders totalling £28m.

A £6m order has been awarded to Lilley Construction for an office accommodation and sheltered housing scheme in Brighton developed by Municipal Mutual Insurance. *Lilley has also won a £1.8m* contract for housing in Gosport awarded by Agamemnon Housing Association.

In Gibraltar Lilley Construction is to build married accommodation for the Property Services Agency valued at £2.1m.

Lilley has also won two further contracts with B.P. (£1.75m) at Grangemouth and on Humberside.

In Scotland Dumfries-based Robison and Davidson has secured £4.1m in housing contracts.

Melville Dundas and Whitson is to upgrade the McLellan Galleries in Glasgow in a design and build contract for the District council. The Galleries will re-open in January 1990 at the threshold of the city's reign as European city of culture. The contract is valued at £3.3m. MDW has secured further contracts in Stirling, Glasgow, Alnwickhill and West Lothian to a total of £2.6m.

Carlisle-based Eden Construction has won £6.5m of contracts including a £2.1m contract for an extension to Stainburn School.

Refurbishing headquarters

A £6.4m contract has been won by HOLLOWAY, WHITE, ALLOM to refurbish the Westminster headquarters of the Institution of Civil Engineers. The company starts work on the Great George Street building on February 6 and is due to complete the project in 18 months.

The contract embraces provision of committee rooms, plus archive and library stores at basement level, catering facilities, offices and a lecture theatre at lower ground level, offices and toilets on the ground floor, and some new building.

DIARY DATES

PARLIAMENTARY

Today

Commons: Prevention of Terrorism (Temporary Provisions) Bill, remaining stages.

Motion to approve House of Commons (Services) Committee second report, 1987-88 on access to the precincts of the House.

Lords: Civil Aviation (Air Navigation Charges) Bill, third reading.

Petroleum Royalties (Relief) and Continental Shelf Bill, committee.

Companies Bill, committee.

Select committees: Televising of Proceedings of the House. Witnesses: First Deputy Chairman of the Ways and Means Committee and members of Chairmen's Panel. (Room 8, 6 p.m.)

Public Accounts: subject, Inland Revenue Accounts Report. Witness: Sir Anthony Battishill, chairman, Board of Inland Revenue. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Fair Employment (Northern Ireland) Bill, second reading.

Lords: National Maritime Museum Bill, committee.

Companies Bill, committee.

Motions on the Electricity and Pipeline Works and Harbour Works Regulations.

Select committees: Education, Science and Arts: subject, supply of teachers for the 1990s. Witnesses: Association of County Councils and Association of Metropolitan Authorities. (Room 15, 4.15 p.m.)

Committees on private bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.); London Local Authorities Bill. (Room 5, 10.30 a.m.)

Wednesday

Commons: Debate on an Opposition motion on "The housing crisis" followed by a debate on "The blight of low pay."

Lords: Debate on "Quality of life by protecting the environment from pollution."

Motion on Food Protection Regulations.

Question to Government on action to improve care standards for the infirm elderly.

Select committees: Foreign Affairs: subject, Eastern Europe and the Soviet Union. Witnesses: Sir Bryan Cartledge and Sir Curtis Keeble. (Room 8, 10.15 a.m.)

Trade and Industry: subject, privatisation of Short Bros and Harland and Wolff. Witness: Mr Tom King, Northern Ireland Secretary. (Room 15, 10.30 a.m.)

Energy: subject, UK/Soviet Union energy relations. Witnesses: Shell, BP and British Gas. (Room 19, 11 a.m.)

Agriculture: subject, salmonella in eggs. Witnesses: Mr John MacGregor, Agriculture Minister, and Mr Kenneth Clarke, Health Secretary. (Westminster Hall Grand Committee Room, 4 p.m.)

Foreign Affairs: subject, Eastern Europe and the Soviet Union. Witnesses: officials from the Foreign Office and Ministry of Defence. (Room 8, 4.15 p.m.)

Home Affairs: subject, higher police training and the Police College. Witnesses: Dr R. Reiner of Brunel University, Dr P. Waddington of the University of Reading and Mr Barrie Irving, director of the Police Foundation (Room 15, 4.15 p.m.)

Public Accounts: subject, operations strategy of the Department of Social Security. Witnesses: department officials. (Room 16, 4.15 p.m.)

Social Services: subjects: resourcing the National Health Service; Whitley Councils. Witnesses: National and Local Government Officers' Association, Manufacturing, Science andFinance Union; National Union of Public Employees and Confederation of Health Service Employees. (Room 21, 4.15 p.m.)

Transport: subject, roads for the future. Witnesses: County Planning Officers' Society and Association of London Borough Engineers and Surveyors. (Room 17, 4.15 p.m.)

Treasury and Civil Service: subject, official statistics. Witnesses: Central Statistical Office officials. (Room 18, 4.30 p.m.)

Committees on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.) London Local Authorities Bill. (Room 5, 10.30 a.m.)

Thursday

Commons: Consideration in committee of Official Secrets Bill.

Lords: Atomic Energy Bill, third reading.

Football Spectators Bill, second reading.

Question to Government on the White Paper "Employment in the 1990s."

Committees on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.) London Local Authorities Bill. (Room 5, 10.30 a.m.)

Friday

Commons: Private members' bills.

FINANCIAL

TODAY

COMPANY MEETINGS:

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Trade Fairs and Exhibitions: UK

Current
British International Toy and Hobby Fair (01-701 7127) (until February 1) Earls Court

Current
International Food & Drink Exhibition — IFE (01-486 1951) (until February 2) Olympia

February 5-7
Fashion Fabric and Sewing Fair (0422 51215) Barbican

February 5-9
International Spring Fair (01-855 9201) NEC, Birmingham

February 7-9
Textile & Technology Exhibition (01-385 1200) G-Mex Centre, Manchester

February 9-12
Crufts Dog Show (01-493 7838) Earls Court

February 12-16
North London Business and Industry Exhibition (0442 217466) Picketts Lock, London

February 13-15
Information Technology Skills Exhibition-IT (0491 410222) Olympia

February 15-16
Welding and Metal Fabrication Exhibition-WELDFAB (021 705 6707) Harrogate Exhibition Centre

February 18-26
Boat, Caravan, & Leisure Show (021 236 3366) NEC, Birmingham

Overseas Exhibitions

Current
Irish Crafts Trade Fair (Dublin 884939) (until February 1) Dublin

Current
International Confectionery, Chocolate and Biscuit and Trade Exhibition (01-225 5566) (until February 1) Paris

February 10-13
International Spring Trade Fair of Household Goods, Crystalware, Ceramics, Silverware & Gifts — MACEF (01-242 7289) Milan

February 17-19
International Holiday and Travel Fair (Cork 273006) Cork

February 18-22
International Consumer Goods Fair (01-734 0543) Frankfurt

Business and management conferences

January 30
IBC: Risk management planning and systems (01-236 4080) City Conference Centre, London

January 31
CBI Conferences/ CILT: Languages mean business (01-379 7400) Centre Point, London

February 2
Tolley Conferences: Practical VAT annual conference (01-680 5682) The London Press Centre

February 3
Forum Communications: Accounting for brands - evaluating these "under-rated" assets (01-938 2222) Royal Garden Hotel, London

February 7-8
FT Conferences: The FT European Mergers and Acquisitions conference – Prospects in the Single Market (01-925 2323) Hotel Inter-Continental, London

February 13
The Institute of Petroleum: North Sea oil and gas-the first quarter century and the next (01-636 1004) London

February 13-15
Frost & Sullivan: Software maintenance (01-730 3438) London

February 17
The Economist: 1992 and beyond – Restructuring Europe's financial services (01-839 7000) Marriott Hotel, London

February 20-21
FT Conferences: Cable television and satellite broadcasting (01-925 2323) Hotel Inter-Intercontinental, London

February 20
Legal Studies & Services: Mergers & Acquisitions – Major tax, accounting and finance issues (01-236 4080) Marriott Hotel, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	45.64	46.06	48.99	5.59	40000
Gilts & Fixed Int	6	114.0	114.0xd	121.1	8.26	40001
High Inc Equity	6	122.7	125.0xd	133.6	4.45	40002
Worldwide Bond	6	189.0	189.0	200.3	4.84	40003
Capital Growth						
American Growth	6	152.5	154.6xd	164.4	1.32	40004
Asian Pacific	6	74.73	75.81xd	81.08	1.33	40005
Assets & Earnings	6	145.1	149.68	159.1	2.51	40006
Capital Reserve Acc	0	82.62	82.62	82.79	4.83	40007
Commodity & Energy	6	96.06	96.06	102.8	0.00	40008
1992 Enterprise	6	50.06	51.07	54.32	3.31	46597
European Capital	6	76.75	77.22	82.14	0.91	40009
General	6	163.4	166.4	177.0	2.54	40010
Japan	6	102.0	103.7	110.3	0.00	40011
Mastertrust	6	76.35	76.35	81.66	1.81	40012
UK Growth Acc	6	179.6	187.8	199.7	1.33	40013
UK Growth Dist	6	120.5	126.0	134.0	1.99	40014
US Emerging Cos	6	46.46	47.88	50.93	0.00	40015
Income & Growth	6	271.9	277.6	295.3	3.22	40016
Ethical	6	44.59	45.66	48.57	2.57	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0224 633070

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GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ✠ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ◆ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust information pages.

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OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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Norwich Union Life Insurance Soc.

PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Pensions				
With Profits Fd	110 90	116.73	-	43216
Managed Fd	124.72	131.29	-	43217
UK Equity Fd	128 85	135.63	-	43218
International Fd	127.88	134.61	-	43219
European Fd	119.25	125.50	-	43220
North American Fd	116.96	123.11	-	43221
Pacific Fd	124.61	131.16	-	43222
Property Fd	126 02	132.65	-	43223
Fixed Int Fd	103.77	109.23	-	43224
Intl Bond Fd	106.76	112.38	-	43225
Bldg Soc Dep Fd	105.42	110.97	-	43226
Pensionmaster* & Unit-Linked Plan				
Fixed Interest Fund	291.5	306.8	-	43227
Index-Linked Sec Fund	155.7	163.9	-	43228
Ordinary Share Fund	495.1	521.1	-	43229
International Fund	136.6	143.8	-	43230
Property Fund	213.9	225.1	-	43231
Deposit Fund	188.8	198.7	-	43232
Mixed Fund	338.1	355.9	-	43233
Norwich Units January 15	820.0		-	43234

*Prices as at January 24

Pearl Assurance (Unit Funds) Ltd

252 High Holborn, London WC1V 7EB 01-405 8441

	Bid Price	Offer Price	Yield Gross	City-line
Prop Dist. (Gross)	180.3	189 8	-	43235
Prop. Acc. (Gross)	303.7	319.7	-	43236
Equity (Gross)	711.5	749 0	-	43237
Managed (Gross)	513 6	540.7	-	43238
Prop. Acc. (Net)	140.5	147.9	-	43239
Equity (Net)	164.8	173.5	-	43240
Managed (Net)	156.4	164.7	-	43241
International (net)	138.9	146.2	-	43242
Gilt & Fxd Interest	103 8	109.3	-	43243
Money Fund	103.4	108.9	-	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	494 0	520 0	-	43245
Ret Man (Series 2)	167.5	176 4	-	43246
Ret Man (Series 3)	110.5	110.5	-	46462
Ret Cash	129 8	136.7	-	43247
Ret Cash (Series 3)	106.6	106.6	-	46463

Phoenix Assurance Co Ltd

Phoenix House, Redcliff Hill, Bristol 0272 294941

	Bid Price	Offer Price	Yield Gross	City-line
Life Assurance Funds				
Wealth Assd	407.1	428.6	-	43248
Eb'r Ph. Eq	348.7	370.6	-	43249
Pension Plan Funds				
Phoenix				
UK Equity Acc	183 7	193.3	-	43250
International Acc	149 9	157.7	-	43251

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-line
Unit Fund	955.0	1002.8	-	43476
Equity Fund	215 4	226.2	-	43477
International Fd	142.0	149.1	-	43478
Fixed Interest Fd	154 7	162.4	-	43479
Property Fund	209 6	220.1	-	43480
Index-Linked Fund	133 6	140.3	-	43481
Deposit Fund	132.9	139.5	-	43482
Pens. Mixed (Ord) Fd	223.0	234.2	-	43483
Gold Pensions				
Discretionary Fund		108.2	-	-
Equity Fund		106.2	-	-
Fixed Interest Fund		107.2	-	-
International Fund		106.3	-	-
Property Fund		126.8	-	-
Index-Linked Fund		109.5	-	-
Deposit Fund		105.5	-	-
S & F Consolidation		104.4	-	-
S & F Balanced		107.3	-	-
S & F Maximum Growth		97.6	-	-

Provident Mutual Life Assc. Assn.

Willian Rd, Hitchin, Herts SG4 0LP 0438 739000

	Bid Price	Offer Price	Yield Gross	City-line
Managed Ord	304.2	320.2	-	43484
Managed Init	247.8	260.8	-	43485
Equity Ord	423.3	445 6	-	43486
Equity Init	344.8	362.9	-	43487
Index Linked Gilt Ord	132.8	139 8	-	43488
Index Linked Gilt Init	113 0	118.9	-	43489
Overseas Equity Ord	275 0	289.5	-	43490
Overseas Equity Init	224 0	235 8	-	43491
Property Ord	189.9	199.9	-	43492
Property Init	154.7	162.8	-	43493
Fixed Interest Ord	177.0	186.3	-	43494
Fixed Interest Init	144.2	151.8	-	43495
Deposit Ord	139.5	146.8	-	43496
Deposit Init	113.7	119.7	-	43497
Pension Funds				
Managed Ord	370 4	389.9	-	43498
Managed Init	301 7	317 6	-	43499
Equity Ord	535 0	563.2	-	43500
Equity Init	435.8	458.7	-	43501
Pen Ind Lkd Gilt Ord	143.8	151 4	-	43502
Pen Ind Lkd Gilt Init	122.3	128.7	-	43503
Overseas Equity Ord	314.7	331.3	-	43504
Overseas Equity Init	256.4	269.9	-	43505
Property Ord	226.6	238.5	-	43506
Property Init	184 6	194.3	-	43507
Fixed Interest Ord	203 4	214.1	-	43508
Fixed Interest Init	165.7	174 4	-	43509
Deposit Ord	177.1	186.4	-	43510

Royal Heritage Life Assurance Ltd

Skandia Life Assurance Co Ltd—Contd.

Sun Life Unit Assurance Ltd—Contd.

Knight Williams & Company Ltd

161 New Bond Street, London W1Y 0LA 01-408 1138

	Bid Price	Offer Price	Yield Gross	City-line
KW M&G Managed Inc	117.6	123 6	-	44499
KW Henderson Man 1	95.2	100.3	-	44500
KW Henderson Man 2	95.0	100 0	-	44501
KW GRE Managed	100.5	105 8	-	44502
KW Schroder Man	113 4	119 3	-	44503
KW Prolific Man	103 9	109 4	-	44504
KW CM&G Fid Man Ltd	116.8	123 0	-	44505
KW Albany Man	109 5	115 2	-	44506
KW Crown Man	95 0	99.9	-	44507

Prudential Intl Financial Services Ltd

P O Box 61 St Peter Port, Guernsey 0481 26268

Barclays Intl Funds

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY AUTHORISED

JERSEY AUTHORISED

BERMUDA AUTHORISED

OFFSHORE INSURANCES

IoM AUTHORISED

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
855	Treas 9¼pc Cnv 1989	99	12.23	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	98	9.57	10.10	15Nov 15May	1327
1,400	Treas 10½pc 1989	99	12.14	7.11	14Dec 14Jun	1287
2,400	Exch 10pc 1989	99	12.20	28.12	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99	11.96	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	96	10.43	8.9	25 Apr 25 Oct	1329
535	Exch 10¼pc Cv '89	99	11.05	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101	11.15	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99	11.08	6.1	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	101	11.17	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	92	9.30	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	96	10.96	8.11	15 Dec 15 Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	98	9.40	12.12	16Jul 16Jan	4680
1,887	Treas. 10pc Cv 1990	98	10.83	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	89	9.07	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	101	10.74	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	91½	10.26	1.9	5Oct 5Apr	1275
400	Treas. 3pc 1991	87	9.00	7.10	13Mar 13May	1326
646	Treas 10pc Cv '91 ‡‡	99	10.10	6.12	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	101	10.51	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	94	10.47	3.11	10Jun 10Dec	1335
900	Treas 12¾pc 1992‡‡	106	10.20	16.12	22Jul 22Jan	1297
1,600	Treas 10pc 1992	99	10.26	16.1	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	93	10.29	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100	10.24	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84	8.55	4.11	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	105	10.32	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	109	10.24	16.8	22Mar 22Sep	1266
950	Treas 8¼pc 1993	94	10.09	17.1	18Aug 18Feb	—
1,850	Treas 10pc 1993‡‡	100	9.97	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	108	10.06	8.12	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	86	9.57	9.8	15Mar 15Sep	1276

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
3,318.6	USX $1	17⅞	$1.40	4.4	2.11	Mr Je Se De	4380
130.0	♦Unilab	140p	–	–	–	–	–
3,270.9	Utd. Technologies	24⅜	$1.60	3.5	15.11	Mr Jn Sp Oc	4381
–	♦Utilitech Inc.	150p	–	–	–	–	–
6,837.7	US West§	34½	$3.52	5.7	13.4	Fb My Ag No	–
5,511.8	Waste Management $1	24⅞	48c	1.1	16.12	Ap Jy Oc Jan	4439
1,012.5	Whirlpool $1	14⅝	$1.10	4.2	30.11	Mr Jn Se De	–
2,151.0	Whitman Corp	19⅞	96c	2.8	6.12	Ap Jy Oc Ja	2951
1,962.1	♦Woolworth $3½	29⅞xd	$1.64	3.0	26.1	Mr Je Se De	4540

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.) — Contd.

For Parker Knoll see Cornwall Parker

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
¶ No par value
B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... v	72	+3
Craig & Rose £1.. v	718	.....
Finlay Pkg. 5p.... v	86	+1
Holt (Jos) 25p..... v	1233	+5

Arnotts	395	.....
Carrol (P.J.)..... v	155xd	.....
Hall (R. & H.).....	160	+3
Helton Hldgs..... v	69	+2
Irish Ropes	165	.....

IRISH

Cap. 8½% Ln. 1991	£97½	.....
9pc Cap Ln. 1996..	£101½	+¼

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	46
Blue Circle	39
Boots	20
Bowaters	38
Brit. Aerospace	42
Brit. Telecom	21
Burton Ord.	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	98
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen.	26
Lex Service	34
Lloyds Bank	29
Lucas Inds.	48
Marks & Spencer	15
Midland Bk.	35
Morgan Grenfell	28
NEI	12
Nat West Bk.	45
P & O Dfd.	48
Plessey	15
Polly Peck	28
Racal Elect.	25
RHM	32
Rank Org Ord.	63
Reed Intnl.	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property	
Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils	
Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines	
Cons Gold	100
Lonrho	38
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES REVIEW

Hurdling the interest rate gamble

THE MOST important day in March to the gambling fraternity will almost certainly be March 14. This is one of the big days in the horse racing calender, the Waterford Crystal Champion Hurdle at Cheltenham; it is also Budget Day in Britain.

Finding the winner of the Champion Hurdle looks no more difficult at present than delivering Friday's gamble, when short sterling was bought on Liffe at a level discounting a cut in UK bank base rates.

In all the ballyhoo surrounding the December UK trade figures, one point may have gone unnoticed. The figures were good enough to push March short sterling futures through resistance at 87.41 on the Liffe market. Taking Friday's closing price of 87.48 away from 100 gives the equivalent cash rate of 12.52 per cent. At this level the market is discounting a cut of ½ point to 12½ per cent in UK bank base rates.

This contract is deliverable on March 15, the day after the Budget. The City assumes the Chancellor will not countenance a cut in base rates before the Budget, but what about the day after the Budget? The market obviously believes this is now possible, but it is cutting matters rather fine. If it does not happen on the 15th, March short sterling cannot be worth as much as the market price on Friday.

The time of delivery on March 15 is also important. It is 11 am and the Bank of England will only send a signal of lower base rates before that time if there is a very large credit shortage on the day. If the authorities do not provide early help to the money market there will not be an opportunity to send a signal on rates until noon.

This gamble also assumes that everything goes well in the meantime, and that the economic news published in February - including money supply, bank lending and more trade figures - does not prove a setback to confidence. Even if the gamble pays off and base rates are cut before 11 am on March 15 the profit margin is likely to make a bet of 5 to 4 against Kribensis winning the Champion Hurdle look attractive.

The trade figures were better than expected, but analysis of the underlying data does not suggest there will be any rush by the authorities to cut base rates. The overriding drive of Government policy is to reduce inflation, and this has probably not yet peaked. There was no indication in the trade numbers that British industry is suffering from uncompetitiveness, and therefore no reason to belive that the economy is being strangled by a strong currency, high interest rate policy. The trade gap shrank because exports rose 2.7 per cent in December while imports were virtually unchanged.

Markets may have become rather too enthusiastic about the trade news, but it can be said that sterling and its associated markets came through an important test of sentiment. A fall in the current account deficit to £1.26bn in December, and a downward revision in the November shortfall to £1.47bn, were at least a good as most optimists had hoped. Sterling gained about ½ pfennig on the news, and the markets in general became very frothy. The FTSE 100 index went through 2,000 and gilts put on up to ¾ point.

The cash interest rate market was much more muted, perhaps the most worrying point about all the enthusiasm. On this basis, it may seem a trifle optimistic to assume that better trade figures in December will be translated into the base rate cut on one specific day in March. Taking a gamble over the hurdles at Cheltenham may be a better bet.

Colin Millham

£ IN NEW YORK

Jan.27	Close	Previous Close
£ Spot	1.7595-1.7600	1.7675-1.7685
1 month	0.51-0.49pm	0.54-0.52pm
3 months	1.46-1.42pm	1.53-1.50pm
12 months	4.05-3.90pm	4.28-4.18pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

Jan.27	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.743843	0.637729
U S Dollar	6.50	1.31928	1.12591
Canadian $	11.54	1.59965	1.33364
Austrian Sch.	4	17.1111	14.6875
Belgian Franc	7.75	50.9374	43.6966
Danish Krone	7½	9.43747	8.10374
Deutsche Mark	4	N/A	2.08721
Neth. Guilder	5.00	2.74608	2.35630
[illegible]			

CURRENCY MOVEMENTS

Jan.27	Bank of England Index	Morgan** Guaranty Changes %
Sterling	98.1	-14.0
U.S Dollar	67.3	-11.9
Canadian Dollar	102.4	-0.2
Austrian Schilling	106.4	+9.5
Belgian Franc	105.6	-6.4
Danish Krone	102.8	-1.8
Deutsche Mark	112.2	+20.1
Swiss Franc	108.0	+17.6
[illegible]		

OTHER CURRENCIES

Jan.27	£	$
Argentina	29.9500-30.1000	16.9500-17.0300
Australia	2.0095-2.0120	1.1415-1.1425
Brazil	1.7500-1.7700	0.9900-1.0000
Finland	7.5065-7.5285	4.2540-4.2560
Greece	269.20-273.70	152.55-155.05
Hong Kong	13.7290-13.7420	7.8010-7.8030
Iran	123.50*	69.25*
Korea(Sth)	1197.80-1207.45	677.60-683.20
Kuwait	0.50630-0.50745	0.28700-0.28720
Luxembourg	68.40-68.50	38.85-38.95
[illegible]		

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY JANUARY 27 1989 US Dollar Index	Day's % Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY JANUARY 26 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988/89 High	1988/89 Low	Year ago (approx)
Australia (90)	153.22	+6.0	129.15	116.38	4.62	153.67	128.54	116.26	153.67	91.16	97.81
Austria (18)	96.11	+0.2	81.01	92.33	2.67	96.36	80.60	92.41	100.00	83.72	88.47
Belgium (63)	134.89	-0.2	113.70	130.07	3.86	135.90	113.68	130.04	139.89	99.14	106.60
Canada (126)	134.78	+7.4	113.60	115.90	3.14	135.03	112.94	115.62	135.03	107.06	109.11
Denmark (39)	156.66	+0.0	132.04	153.94	1.97	158.37	132.47	154.17	161.60	111.42	113.94
Finland (26)	134.24	+2.6	113.15	119.87	1.46	133.52	111.68	119.31	139.83	106.78	110.67
France (131)	118.24	+2.8	99.66	117.49	2.76	118.60	99.20	116.65	119.33	72.77	77.77
West Germany (102)	85.83	-2.4	72.34	83.10	2.27	86.12	72.03	82.56	90.40	67.78	67.78
Hong Kong (45)	122.88	+9.9	103.57	123.09	4.02	120.73	100.99	120.92	122.88	84.90	91.69
Ireland (18)	135.48	+2.8	114.19	132.43	3.81	133.70	111.84	129.75	144.25	104.60	113.80
Italy (98)	82.81	-2.7	69.80	84.24	2.39	84.18	70.41	84.87	86.88	62.99	70.83
Japan (456)	193.49	+1.0	163.08	157.96	0.47	194.35	162.56	157.37	197.43	133.61	149.24
Malaysia (36)	152.74	+6.4	128.74	160.35	2.66	152.30	127.39	159.46	154.17	107.83	119.63
Mexico (13)	162.62	+0.5	137.07	409.48	1.25	161.29	134.91	405.59	182.24	90.07	133.63
Netherland (38)	114.80	+2.1	96.76	110.16	4.48	114.72	95.96	109.02	115.04	95.23	97.86
New Zealand (24)	69.97	+3.5	58.98	61.07	6.43	70.46	58.94	61.27	84.05	63.32	72.50
Norway (26)	160.65	+15.6	135.41	146.37	1.86	160.08	133.90	145.20	160.65	98.55	101.08
Singapore (26)	136.90	+9.4	115.39	122.08	2.18	135.86	113.64	120.99	136.90	87.99	105.75
South Africa (60)	127.11	+8.8	107.14	107.90	4.39	128.47	107.46	109.06	139.07	98.26	122.69
Spain (42)	148.29	-0.1	124.99	129.48	3.23	149.61	125.14	129.49	164.47	130.73	134.93
Sweden (35)	148.66	+2.8	125.30	139.36	2.05	149.62	125.15	139.16	149.62	96.92	106.95
Switzerland (57)	76.79	-1.7	64.72	75.53	2.25	78.05	65.29	75.85	86.75	74.13	76.95
United Kingdom (314)	146.94	+8.6	123.85	123.85	4.38	144.67	121.01	121.01	146.94	120.66	130.90
USA (570)	119.52	+5.6	100.74	119.52	3.56	118.63	99.23	118.63	119.52	99.19	104.83
Europe (1007)	118.73	+3.6	100.07	108.02	3.50	118.31	98.96	106.71	118.73	97.01	99.64
Nordic (126)	143.70	+2.9	121.12	131.63	1.94	144.52	120.89	131.44	-	-	-
Pacific Basin (677)	188.88	+1.4	159.20	154.66	0.69	189.63	158.61	154.06	192.26	130.81	145.00
Euro-Pacific (1684)	160.81	+2.0	135.54	136.13	1.54	161.09	134.74	135.26	161.61	120.36	126.88
North America (696)	120.34	+5.7	101.43	119.33	3.54	119.51	99.97	118.47	120.34	99.78	105.05
Europe Ex. UK (693)	101.22	-0.2	85.32	98.30	2.78	101.86	85.20	97.98	102.91	80.27	80.30
Pacific Ex. Japan (221)	133.02	+7.3	112.12	113.98	4.34	133.11	111.34	112.26	133.62	87.51	93.98
World Ex. US (1883)	159.57	+2.2	134.50	135.31	1.60	159.86	133.71	134.48	160.23	120.26	126.23
World Ex. UK (2139)	143.87	+2.7	121.26	130.60	1.98	143.93	120.39	129.96	143.93	111.77	116.67
World Ex. So. Af. (2393)	144.23	+3.2	121.57	130.10	2.19	144.07	120.51	129.24	144.23	113.26	117.89
World Ex. Japan (1997)	120.41	+5.0	101.49	115.26	3.57	119.77	100.18	114.25	120.41	100.00	102.93
The World Index (2453)	144.13	+3.2	121.48	129.95	2.20	143.98	120.43	129.10	144.13	113.37	117.93

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.62 (US $ Index), 114.42 (Pound Sterling) and 123.18 (Local).

CONSTITUENT CHANGES: Deletion: Jan. 27: Johnson Elect.(Hong Kong).

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 46,471

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	NatWestminster	13
Adam & Company	13	Clydesdale Bank	13	Northern Bank Ltd.	13
AAB - Allied Arab Bk	13	Comm. Bk. N. East	13	Norwich Gen. Trust	13
Allied Irish Bank	13	Co-operative Bank	*13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Coutts & Co	13	Provincial Bank PLC	14
ANZ Banking Group	13	Cyprus Popular Bk	13	R. Raphael & Sons	13
Associates Cap Corp	12	Dunbar Bank PLC	13	Roxburghe G'rantee	13½
Authority Bank	13	Duncan Lawrie	13	Royal Bk of Scotland	13
● B & C Merchant Bank	13	Equatorial Bank plc	13	Royal Trust Bank	13
Bank of Baroda	13	Exeter Trust Ltd	13½	● Smith & Williamson Secs.	13
Banco Bilbao Vizcaya	13	Financial & Gen. Bank	13	Standard Chartered	13
Bank Hapoalim	13	First National Bank Plc.	14	TSB	13
Bank Credit & Comm	13	● Robert Fleming & Co.	13	United Bk of Kuwait	13
Bank of Cyprus	13	Robert Fraser & Ptnrs.	13½	United Mizrahi Bank	13
Bank of Ireland	13	Girobank	13	Unity Trust Bank Plc	13
Bank of India	13	● Guinness Mahon	13	Western Trust	13
Bank of Scotland	13	HFC Bank plc	13	Westpac Bank Corp.	13
Banque Belge Ltd	13	● Hambros Bank	13	Whiteaway Laidlaw	13½
Barclays Bank	13	Heritable & Gen Inv Bnk.	13	Yorkshire Bank	13
Benchmark Bank PLC	13	● Hill Samuel	§13		
Berliner Bank AG	13	C. Hoare & Co.	13		
Brit. Bk of Mid East	13	Hongkong & Shangh	13		
● Brown Shipley	13	● Leopold Joseph & Sons	13		
Business Mtge Tst	13½	Lloyds Bank	13		
Cl. Bank Nederland	13	McDonnell Douglas Bnk	13		
Central Capital	13	Meghraj Bank Ltd	13		
● Charterhouse Bank	13	Midland Bank	13		
Citibank NA	13	Mortgage Express Ltd.	‡13.95		
		Mount Bnkg Corp.	13		
		Nat. Bk. of Kuwait	13		

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JOTTER PAD

MONEY MARKETS

Trade data dominate in London and Paris

LONDON REMAINED detached from the rest of Europe last week, as far as interest rates were concerned. Relatively good December UK trade figures brought three-month interbank down to 13-12⅞ per cent on Friday, from 13⅛-13 per cent.

In Paris the December French trade figures disappointed on Thursday, resulting in firmer rates, and fears that interest rates will remain high in the foreseeable future, to limit domestic consumption and defend the franc in the EMS.

In Frankfurt the trend turned out to be lower, but this was not necessarily in accordance with the Bundesbank's wishes.

German interest rates declined at a time when the Bundesbank was struggling to defend the D-Mark against the dollar on the foreign exchanges.

On Thursday the Bundesbank offered currency repurchase agreements to banks in order to prevent call money falling to its natural floor of 4.50 per cent. It is unlikely to fall any further because at that level commercial banks will use surplus funds to buy three-day Treasury notes from the Bundesbank.

Thursday's action was estimated to have withdrawn between DM1bn and DM2bn from the banking system. This followed a net drain of DM8.1bn on Wednesday, when the central bank failed to fully replace a maturing securities repurchase agreement. On Friday however the market remained awash with funds and call money was down to 4.50 per cent. Nevertheless consolation for the Bundesbank should come early this week as funds flow out of the market, pushing the call rate back towards 5 per cent.

UK clearing bank base lending rate 13 per cent from November 25

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

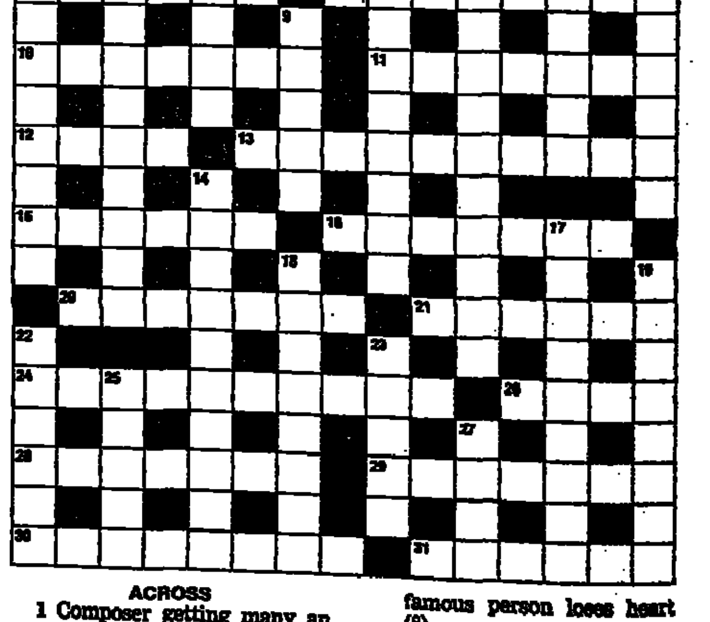
[illegible]

RIGHTS OFFERS

[illegible]

CROSSWORD

No.6,847 Set by DANTE



ACROSS

1 Composer getting many an offer of a lift (6)
4 Reckon to make a hundred on the side, right? (8)
10 Unusually tactile network (7)
11 Title of the French game (7)
12 Study a book about publicity (4)
13 Moon starer? Perhaps (10)
15 A beating leaves a permanent impression on one (6)
16 Cunning employed in any lawless state (7)
20 Train or coach (7)
21 Knock everybody out (6)
24 Quite enough out of school (10)
26 Land in Paris (Le Bourget?) (4)
28 Sort of desk that heads the list? (4-3)
29 Open with a play by G.B. Shaw (7)
30 Put order into project (8)
31 Recent change of heart (6)

DOWN

1 The rapidity with which a famous person loses heart (8)
2 Survived due to salt preparation (9)
3 Knight I sent up for the flag (4)
5 Rode around the circus giving commands (8)
6 Sixty to the minute? Not so good (6-4)
7 Thought of sleep (5)
8 Stay outside or go (6)
9 Five Gaelic lines of poetry (5)
14 Pass over city and town (10)
17 Sorry underwear (9)
18 Increased keenness (8)
19 Bars under a window (8)
22 Governor gained his seat on the knock (6)
23 Shuffle the cards dishonestly and make a pile (5)
25 Brief paralysis of one in a game (5)
27 Twice reduced by 50% (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 11.

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY (continued) | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | ITALY | SWEDEN | SWITZERLAND | SOUTH AFRICA

[illegible]

JAPAN | AUSTRALIA (continued) | HONG KONG | AUSTRALIA | SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Closing prices January 27

[illegible]

MONTREAL
Closing prices January 27

[illegible]

Total Sales 11,180,881 shares.

INDICES

NEW YORK DOW JONES

	Jan 27	Jan 26	Jan 25	Jan 24	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2322.86	2291.07	2265.89	2256.43	2322.86 (27/1/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.52	89.39	89.34	89.22	91.25 (3/3/88)	86.12 (4/1/88)	–	–
Transport	1051.72	1039.23	1024.81	1023.85	1051.72 (27/1/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	189.96	190.43	190.49	191.15	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High (a) (2303.57) Low (a) (2252.86)

STANDARD AND POOR'S	Jan 27	Jan 26	Jan 25	Jan 24	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite‡	293.82	291.69	289.14	288.49	293.82 (27/1/89)	242.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	339.55	337.24	333.99	333.26	339.55 (27/1/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	26.47	26.14	25.98	25.82	26.47 (27/1/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	164.78	163.60	162.33	161.99	164.78 (27/1/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (28/4/42)
Amex Mkt. Value	321.57	321.42	319.50	318.74	321.57 (27/1/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	397.96	397.09	394.03	392.99	397.96 (27/1/89)	331.97 (12/1/88)	455.28 (26/8/87)	54.87 (31/10/72)

	Jan 20	Jan 13	Jan 6	year ago (approx.)
Dow Industrial Div. Yield	3.59	3.60	3.66	3.64
	Jan 25	Jan 18	Jan 11	year ago (approx.)
S & P Industrial div. yield	3.12	3.13	3.15	3.16
S & P Indl. P/E ratio	13.40	13.30	13.09	15.81

TRADING ACTIVITY † Volume Millions	Jan 27	Jan 26	Jan 25
New York	254.870	212.250	183.610
Amex	16.290	12.640	11.000
OTC	176.201	141.681	121.592

NEW YORK	Jan 27	Jan 26	Jan 25
Issues Traded	1,989	1,977	1,969
Rises	919	957	803
Falls	617	514	627
Unchanged	453	506	539
New Highs	(u)	115	65
New Lows	(u)	7	5

CANADA

TORONTO	Jan 27	Jan 26	Jan 25	Jan 24	1988/89 High	1988/89 Low
Metals & Minerals	3518.6	3478.6	3456.2	3442.2	3526.9 (20/1/89)	2238.7 (8/2/88)
Composite	3617.6	3608.1	3567.8	3554.9	3617.6 (27/1/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1805.62	1801.20	1783.53	1774.69	1805.62 (27/1/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
General Electric	4,055,500	47⅝	+ ½	Burlington	3,153,800	39⅝	+ ⅝
RJR Nabisco	3,644,100	96	+ ½	IBM	2,974,900	126⅜	+ ⅜
AT&T	3,437,900	31½	+ ⅝	Merrill Lynch	2,811,100	29⅞	+ 1⅝
Whitman	3,419,300	33¼	– 1⅞	American Express	2,704,300	29⅞	+ ⅜
Navistar	3,417,300	5⅜	+ ⅛	Ford Motor	2,498,000	52½	+ ⅜

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jan. 27	Jan. 26	Jan. 25	Jan. 24	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1542.6	1540.0	1536.5	1525.3	1657.8 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	727.0	727.0	723.1	711.8	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	234.40	234.70	236.20	235.30	236.20 (25/1/89)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	5790.80	5788.60	5779.95	5742.70	5790.80(27/1/89)	3608.35(4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	288.05	287.90	288.25	286.51	289.22 (19/1/89)	180.88 (4/1/88)
FINLAND						
Unitas General (1975)	744.7	745.2	747.0	748.0	772.1 (8/8/88)	530.6(15/1/88)
FRANCE						
CAC General (31/12/82)	(u)	(u)	(u)	(u)	441.30(13/1/89)	251.3 (29/1/88)
Ind. Tendance(30/12/88)	107.2	106.8	107.2	(u)	107.2(25/1/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	563.48	559.25	564.08	556.63	567.51(5/1/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1686.40	1672.80	1688.2	1666.4	1705.6(5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1343.58	1329.73	1342.03	1334.18	1371.10(5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	2956.95	2910.57	2900.74	2903.03	2956.95 (27/1/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	601.31	605.33	606.82	604.25	615.89 (17/1/89)	425.91 (9/2/88)
JAPAN**						
Nikkei (16/5/49)	31646.13	31511.81	31567.79	31557.6	31646.13(27/1/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2469.45	2458.09	2462.99	2460.92	2469.45(27/1/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	309.1	307.2	306.8	303.7	309.1 (27/1/89)	203.7 (4/1/88)
ANP-CBS Industrial (1970)	270.5	268.9	268.6	266.9	270.5 (27/1/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	544.83	542.87	538.47	530.46	544.83 (27/1/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1115.48	1108.71	1101.39	1087.68	1177.87 (8/8/88)	833.60(4/2/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1355.0	1382.0	1365.0	1370.0	1451.0 (7/7/88)	1154.0 (6/5/88)
JSE Industrial (28/9/78)	2153.0	2158.0	2142.0	2117.0	2158.0 (26/1/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	280.66	280.44	279.53	278.05	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	(u)	3604.3	3570.7	3525.3	3604.3 (26/1/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	632.0	632.1	632.2	627.2	634.2 (16/1/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	510.8	509.3	509.6	510.8 (27/1/89)	401.0 (21/1/88)

**Saturday Jan. 21: Japan Nikkei (c) TSE (c) ♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks
Friday 27 January 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fuji Electric	32.8m	805	+20	Citizen	18.7m	1,020	+35
Nissan	27.3m	1,350	-10	Sato Kogyo	14.8m	1,230	-20
Toshiba	26.5m	1,080	+20	Nippon Steel	14.0m	882	+1
Mitsubishi Heavy Ind	26.2m	1,180	uch	Nishimatsu	13.8m	1,050	-20
Osaka Gas	25.8m	917	+12	Furukawa Electric	11.9m	940	+9

4pm prices January 27

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A — A — A —								
27⅞	17⅞	AAR	.44	1.7	16	74	26¾	26½	26⅜	+ ⅛
10⅛	8¾	ACM n	1.01	11.		111	9⅞	9¾	9⅞	+ ⅛
12⅛	10¼	ACMIn	1.26a	12.		917	10⅞	10¾	10⅞	+ ⅛
10⅛	8½	ACM M	n.17e	1.8		226	9⅜	9⅛	9¼	− ⅛
12⅛	10⅛	ACM Sc	1.26	12.		589	10⅛	10⅜	10⅜	
10⅛	8½	ACMSp	n1.01e	11.		767	9⅛	9	9⅛	+ ⅛
5⅛	2⅞	AMCA	.12e	3.3		180	3⅞	3½	3⅝	+ ⅛
6⅛	3¾	AM Intl				1896	5⅞	5½	5⅝	− ⅛
23⅛	18½	AM Int pf	2	9.1		44	22¼	21⅞	22	− ⅛
56⅝	38⅛	AMR			7	18038	u58¼	55⅛	57⅜	+ 2⅜
24⅛	20⅞	ANR pf	2.12	8.9		3	23⅞	23⅛	23⅛	− ⅛
9½	5	ARX			9	182	5⅞	5⅛	5⅛	
45⅛	38¼	ASA	3a	7.5		580	40⅛	39½	39¾	− 1¼
20⅛	12⅞	AVX	.24	1.3	13	97	18⅞	18½	18½	− ⅛
52⅞	42⅞	AbtLab	1.20	2.4	15	5162	49⅛	48⅞	49⅛	+ ½
20⅞	15⅞	AbitiBl g	1			31	17⅛	17⅛	17⅛	
13⅞	7½	AcmeC	.40	4.1		14	9⅞	9⅝	9⅞	+ ⅛
8⅞	6⅞	AcmeE	.32b	4.9	28	64	6½	6⅛	6½	
29½	17½	Acuün			23	304	24	23⅛	23⅞	+ ½
17	14½	AdaEx	1.82e	12.		172	15	14⅞	15	+ ⅛
16⅞	7⅛	AMD			82	6645	9⅛	9	9	− ⅛
43½	28⅛	AMD pf	3	9.4		14	32	31⅞	31⅞	− ½
8½	5½	Adobe				55	7⅛	7	7	
18½	16½	Adob pf	1.84	11.		4	16⅞	16⅞	16⅞	
21⅞	20	Adob pf	2.40	12.		6	20⅛	20⅛	20⅛	− ⅛
9⅛	6⅞	Advest	.12	1.5	18	336	8⅛	8⅛	8⅛	+ ⅛
52½	39½	AetnLf	2.76	5.5	8	1856	49⅞	49⅛	49⅛	+ 1¼
96	90¼	AetL pfC	6.18e	6.5		1	95	95	95	+ ½
44½	24	AflPb s	.22	.5		771	40⅞	40	40⅛	+ 1
18⅝	13¼	Ahmans	.88	4.8	9	3293	18⅞	17⅞	18⅛	+ ⅛
[illegible]										

Continued on Page 33

هكذا من الأصل

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued from previous Page

OVER-THE-COUNTER

Nasdaq national market, 4pm prices January 26

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

AMEX COMPOSITE PRICES

4pm prices January 26

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

The Business Column

The hidden snags in new pay schemes

Performance-related pay is becoming a symbol for the personnel practices of the modern, flexible, customer-driven business.

As Mr Richard Coles, personnel policies director of Ferranti International put it at a recent conference, the aim of more individualised payments is "to ensure that every pound spent on payroll gives good value in terms of attracting, retaining, and motivating employees – particularly the good performers."

Employers have turned to performance-related pay in an effort to move towards a more individual culture of employee relations, in which union power is weakened and staff are more committed to their companies.

It is more than a mere fashion and has spread from private sector managers to middle managers, administrative and clerical staff, and into the public sector. It is meant to reward achievement of a range of work objectives, which stress quality as much as improvements in output.

This shift in pay philosophy has inevitably created tricky questions for companies. What is the difference between merit pay, a judgment of an employee's quality, and performance pay, a measurement of their contribution to the company given their skills? While a great deal of attention has focused on motivating high-flyers, what does performance pay deliver to the great swathes of hard working, unambitious people which companies depend upon?

There is also this warning from Mr Len Peach, a senior personnel executive with IBM, and for the last two years chief executive of the National Health Service management board: "Pay is rarely a good motivator for people who are already motivated. But a bad pay decision can be an excellent demotivator." How will companies cope with the disillusionment of staff whose performance review delivers a resounding zero?

Beyond these problems there are a range of external factors which are corrupting the new flexible payment systems.

Dominant labour market pressures

The tightening of the south-eastern labour market and the growth of skill shortages has meant that individualised payments have often become intertwined with recruitment supplements, allowances for workers in special locations, and ad-hoc payments to retain key workers.

This has meant that even at companies where all the annual increase in pay is determined by "merit", labour market pressures have predominated. A study by Incomes Data Services, the pay research company, reports that a US-owned, high-tech, non-unionised company in the home counties expects its all-merit payment system to deliver rises of about 8 per cent this year, primarily because of rises in the cost of living, and the settlements agreed at other companies.

So labour market pressures are blurring the line between individualised payments made at the discretion of management, and collective payments, made in response to external labour market pressures. The old systems of payment will continue to have a strong influence on the development of the new.

In addition is it not clear that performance-related pay should be seen as the main solution to problems of recruitment, retention and motivation.

With the decline in the number of young people, revised pay scales for young workers, training and career development may be more important. As companies attempt to recruit more women workers to do jobs traditionally done by young people, they may well find that childcare facilities, career breaks and more flexible working time may be more effective in recruiting and retaining staff.

The main drawback with collective payment systems is that they treat workers as a homogenous mass. The workforce is becoming more diverse, segmented and differentiated. The key for companies will be to match this diversity with more diversified forms of rewards and benefits. Performance-related pay is just one route towards this greater diversity.

Charles Leadbeater

THE MONDAY INTERVIEW

Riding a national champion

Paul Betts and **David White** talk to Alain Gomez, chairman of France's Thomson group

Mr Alain Gomez is not one of the French business world's calmer personalities, but these days he is more tense than usual. The chairman of the French nationalised Thomson electronics and defence group is fascinated by the current struggles for control of GEC and Plessey because he has long expected a shake out in the European electronics industry. But he did not expect it to come so soon.

"These are interesting times," the former paratrooper said with undisguised relish over breakfast, pushing to one side a large glass of freshly squeezed orange juice. "It is going so quickly it could all be settled by 1992." He is surprised above all that it should have started in Britain with the complicity of as stolid a company as Siemens of West Germany.

As Thomson's chief executive, he is poised to play a big part in the carve up of the European industry. "We cannot remain indifferent to anything important which happens in our industry," he emphasised. As to his future designs in the UK, Mr Gomez said: "We exclude nothing that would be in our interest."

The GEC/Siemens assault on Plessey – whatever its outcome – has provided the impetus for change, and the abortive Metsun bid for GEC in which Thomson was implicated has accelerated the process. But Mr Gomez has also been looking elsewhere in Britain to forge new defence partnerships. He confirmed that he was holding talks with British Aerospace on missiles and other areas, as well as – albeit with less optimism – with US companies. In France, he is on the verge of a tie-up with the state Aerospatiale group to form Europe's biggest avionics concern.

Mr Gomez came to Thomson in the heady days of 1982, one of the most spectacular appointments in President Mitterrand's nationalisation programme. Since then, he has wasted little time to turn round one of France's most complicated and visible industrial empires. Mr Gomez spells out his game plan in a few crisp words.

"The main lines of my strategy since I came here were to get relevant market positions whenever and wherever it was possible. And if not possible, get out. That explains all the divestiture and concentration. We had 23 basic businesses in 1982 and we are left with two major ones," he said.

This "shape up or ship out" policy has now transformed Thomson into a profitable group, with sales expected to reach FFr 76bn (£6.8bn) last year and employing 107,000 people. Its two industrial legs are consumer electronics and, through its quoted subsidiary Thomson CSF, also chaired by Mr Gomez, defence. "Now the objective is to consolidate all this," he explained.

A favourite of President Mitterrand, Mr Gomez has long abandoned his political activities on the left. He acknowledges that he has kept friends in the Socialist Party but adds:

PERSONAL FILE

- **1938** Born, Paris. Educated Institut d'Etudes Politiques, Harvard Business School, Ecole Nationale d'Administration
- **1965-69** Inspecteur des Finances (Treasury official)
- **1974-82** Chairman Saint-Gobain Desjonqueres, Saint-Gobain Emballage, Verreries de Saint-Gobain
- **1982** Chairman Thomson-Brandt (became Thomson SA in 1983)
- **1982** Chairman Thomson-CSF

"I also had friends on the other side." These two sides of his range of allies include Mr Roger Fauroux, the "non-political" industry minister who was Mr Gomez's boss for 13 years at the Saint-Gobain glass group; and Mr Jean-Pierre Chevènement, the socialist defence minister with whom Gomez founded the party's Ceres left-wing faction.

Although Mr Gomez has adopted a no-nonsense business approach, he admits that running a nationalised company is more difficult than running an ordinary international enterprise. "You have to play the same game, on the same field, with the same rules as your normal international competitors. But at the same time you have specific constraints, related to the fact that you are a nationalised company, and the fact that it is France."

Mr Gomez did not spell out these constraints, but recognised the "excruciating dilemma" which a group like Thomson faced in the defence business. On the one hand it must, like any other business, obey what he calls "the iron-clad laws" of market share, critical size and financial capacity. "On the other, this 'ordinary' business is not exercised in 'ordinary' conditions because it is related to national sovereignty."

This is the main reason why the shake up in the European defence industry has trailed behind the restructuring of other electronic sectors. Mr Gomez has already achieved his target of putting Thomson at the top end of the world consumer electronic league by acquiring the RCA television business from General Electric in the US. He has sought to do it in semiconductors where he has merged Thomson's interests in a joint venture with SGS, the Italian state controlled electronic components group.

Mr Gomez believes this has turned out to be a "good answer" to the Japanese onslaught in Europe. But his initial go-it-alone decision to invest heavily in semiconductors caused controversy in France. "I think I was right in 1982 to make the analysis that a major international electronic company in consumer and defence sectors could not gamble on surviving long term without controlling its semiconductor technologies. And that was not such common thinking at the time. I was wrong in estimating the harshness of the competition and the difficulties. I underestimated the major revolution which happened in that business in 1984-85."

Another constraint Mr Gomez discovered was the peculiar culture of the company, particularly on the defence side, which he found "too rigid, too bureaucratic, and moreover too French-centred, in spite of the fact we exported more than 60 per cent of our sales." Has it changed? "That's my main task. You don't change that even in six years."

Part of the cultural revolution Mr Gomez has undertaken has been a bold diversification into financial services. But Mr Gomez admits that the group's successful move into finance has irritated the French banking establishment and exposed him to attacks. But Mr Gomez scoffs at his critics, pointing out that other international companies have long gained from their financial activities and links. Thomson bought a small bank, Batif, for FFr 220m in 1984. It is now making annual net profits of FFr 400m-FFr 500m. All the various financial activities of the Thomson CSF defence subsidiary are expected to report net profits of about FFr 1.5bn, compared to the company's estimated profits of around FFr 2.8bn-FFr 2.9bn this year.

"It is too successful, I'm sorry," Mr Gomez said, in mock contriteness.

Financial muscle has helped the group to finance its restructuring, which has included, among major moves, the divestiture of telecommunications and medical equipment, without digging into Thomson CSF's heavy long term research and development requirements. However, the defence subsidiary would have to absorb a major blow if the French government were to abandon the country's ambitious but highly controversial Rafale fighter project, which is competing against the four nation European Fighter Aircraft (EFA). Mr Gomez recognised that France's withdrawal from EFA meant "a lost opportunity" in radar. "We do regret it. It would have been better for us to be a member of the EFA consortium."

Future restructurings are likely to be focused on defence, since in the consumer and telecommunications side they have already been forced by the integration of the European market. "It is very unlikely that in defence there will be a unified European market in 1992-93," Mr Gomez said. This did not lessen the fact that European defence industries were ill-adapted to changing conditions. The prospect of flat or even decreasing demand for military equipment made reorganisation all the more urgent. "What counts is not the evolution of the market but your position in the market," he added.

Another potential challenge for the European defence industry comes from Japan. "Already in volume Japan's defence budget is bigger than France's. The technological basis for a major drive, if they wish, is there. And there is every reason to believe that they will do it."

West German industry had already taken one path by forging a nationally-based defence conglomerate around Daimler-Benz. "You can certainly say that you now have a Deutschland AG. But you can't say you have a France SA, as of today," he said, explaining that the imminent avionics merger between Thomson and Aerospatiale, while important, was not such a major step in comparison. Consolidating defence industries on a national basis was easier than international alliances, he argued, because governments did not interfere. "But the question is: is it a solution to the problem?" For Mr Gomez, the issue is that while bigger defence groupings must emerge, the customer's interest is to keep competition alive.

Of the major European defence industries, Britain's has been by far the most fragmented. But in Mr Gomez's view, the movement has now inexorably started in the UK. In contrast to West Germany, it is taking place in the stock market. "It's a beginning. But a big beginning."

Alan Harper

'We had 23 basic businesses in 1982 and we are left with two major ones'

Ridding the bar of restrictive practices

JUSTINIAN

While there is much to applaud in the radical proposals of the Lord Chancellor to impose a modern organisation on barristers and solicitors, there is a residual worry that the legal services proffered by the restyled legal profession will constitute an improvement but only for those whom the services are made accessible.

Neither the general philosophy nor the key principles of the Government's Green Paper* throw off the profession's traditional function of advising, assisting and representing the property interests of the country's citizenry.

None of the changes appears designed or aimed at broadening the range of services to every citizen, many of which affect other interests than property. The Green Paper defines legal services in terms that do include social welfare and consumer protection, but the market in those services is "to operate freely so as to give clients the widest possible choice of cost-effective services." There is nothing in that statement to encourage the provision of services for those who do not possess the means for making a choice of an inevitably costly service.

There is, predictably, the declared belief that the legal aid scheme, recently placed under new management in the form of the Legal Aid Board, will provide an efficient and effective system possessing "the flexibility to meet changing demands and circumstances." Again, there is nothing to encourage the spread of state-aided legal advice and assistance to those most needing the service.

Moreover, there are only the most fleeting references to law centres and then only are they mentioned in relation to social welfare claims or problems associated with the family. Nothing is said about a range of problems that have dominated the work of neighbourhood law centres – problems of children taken into care, employment problems, or issues about consumer protection. Housing gets no mention. The proposals in the Green Paper miss an opportunity of affirming the principle that legal services are for everyone and not just for that segment of society that knows how to avail itself of professional advice and assistance.

Given the context of the Government's proclaimed enterprise culture, the reforms of the legal profession are breathtakingly radical and right, although not before time. Specific proposals are, however, not always as imaginative as they might be. The present rule that a barrister must practice from approved premises, that partnerships are impermissible, that every barrister must have a clerk who alone can arrange the barrister's fees with instructing solicitors – all these are destined to be swept away. It marks the end of the barristers' chamber system and the demise of the impresario clerk whose huge earnings have been a constant blot on the legal scene.

The possibility that barristers may be able to choose, along with solicitors, to enter into multi-disciplinary practices is an inevitable consequence of removing the organisational distinction between barrister and solicitors. To pretend that this will not produce fusion of the two branches of the profession is naïve. The self-ordained division among lawyers in the future will be between the specialist advocate and the generalist office lawyer. Those Anglo-Saxon jurisdictions, like some Australian states and Canadian provinces which formally fused the two branches of the profession, have successfully produced the lawyer who chooses to hold himself out exclusively to do advocacy work. If the Bar Council desires to modify the Lord Chancellor's reforms, it will do well to focus on specific proposals of change and not indulge in a futile exercise of arguing over the merits and demerits of fusion.

The least imaginative part of the Green Paper is the section on the judiciary. While opening up the eligibility for all rungs of the judicial ladder, only those who have held an advocacy certificate for an appropriate minimum period for the courts covered by a particular judicial office will be eligible for that office. The conclusion is that a judgeship will come only at the end of a career in professional practice in the courts. Since the Government's proposals envisage that experience as a circuit judge may suffice to warrant promotion to the high court, it is strange that the proposals do not countenance at least one segment of the judiciary reflecting a career judiciary. The qualities for independent thought and sound judgment of law and of human behaviour are quite distinct from the attributes of a fearless advocate. There is ample evidence of the brilliant barrister becoming an over-talkative and unsound judge when put on the bench. Likewise, the less successful barrister has often turned out to be a first-rate judge.

The Lord Chancellor will no doubt bear with equanimity the degree of hostility already displayed by the legal establishment to his proposals. It is a paradox that the legal profession, which over the last 25 years has lived in fear of government intervention in its affairs by a Labour administration, should now be confronted with a major shake-up from a Conservative government. Ten years ago, the Royal Commission on Legal Services under the chairmanship of Lord Benson gave the profession generally a clean bill of health. That brought immediate comfort and not a little misplaced complacency to a beleaguered bar and an uneasy solicitor's branch of the profession. The instinctive revulsion for Lord MacKay's proposals reflects a degree of unpreparedness. The bar has done too little too late to stave off the reforming zeal of a government bent on ridding all professions, without discrimination, of restrictive practices.

**The Work and Organisation of the Legal Profession, CM 570, £7.10, HMSO.*